FIRST QUARTER REPORT

FOR THE 13-WEEK PERIOD ENDED JULY 2, 2022

Indigo

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 10, 2022 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13-week periods ended July 2, 2022 and July 3, 2021. 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 2022 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 accompanying notes contained in this Quarterly Report, the audited annual consolidated financial statements and accompanying notes for the 52-week period ended April 2, 2022 and the MD&A included in the Company's fiscal 2022 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness and lifestyle products, that supports customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores under the *Indigo* and *Chapters* names, as well as 84 small format stores under the banners *Coles* and *Indigospirit*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

The 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 20% equity investment in Unplug Meditation, LLC ("Unplug").

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

Statement on COVID-19

On March 11, 2020, the outbreak of COVID-19 was declared a pandemic by the World Health Organization. The Company, and the retail industry, continue to navigate the impacts of the COVID-19 pandemic, including government imposed restrictions such as closures, quarantine policies and social distancing measures, as well as the indirect impacts to the global economy. All of these impacts had, and can continue to have, negative effects on the Company's retail operations, distributions centres, head office operations and supply chain.

Since the pandemic began, the Company has experienced rolling closures and capacity restrictions to its retail network, as directed by local governments and public health authorities. This notably included Canada-wide closures that negatively impacted the Company's retail operations. All stores remained open throughout the first quarter of fiscal 2023, while 93 retail locations were closed for part of the first quarter in the prior year.

In the current quarter, the Company recognized $1.0 million of COVID-19 external support, all in the form of occupancy expense abatement. In the first quarter of the prior year, the Company recognized $7.3 million of COVID-19 external support; $0.8 million of occupancy expense abatement, $3.7 million from the Canada Emergency Wage Subsidy ("CEWS") and $2.8 million from the Canada Emergency Rent Subsidy ("CERS"). The CEWS and CERS programs ended in fiscal 2022.

The COVID-19 pandemic has introduced volatility to the economy and financial markets on a global scale, impacted consumer spending and disrupted supply chains, the extent of which will depend on future developments that are highly uncertain and cannot be reliably forecasted. The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impacts of the COVID-19 pandemic on the Company. Investors should refer to the risks described in the "Risks and Uncertainties" section of the Company's fiscal 2022 Annual Report.

The Company's top priority remains the health and safety of its customers, employees and communities, and safeguarding the financial strength of the business.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13-week periods ended July 2, 2022, and July 3, 2021.

(millions of Canadian dollars)	**13-week period ended July 2, 2022**	**% Revenue**	13-week period ended July 3, 2021	% Revenue
Revenue	**204.6**	**100.0**	172.1	100.0
Cost of sales	**(122.8)**	**60.0**	(101.6)	59.0
Cost of operations	**(56.8)**	**27.8**	(47.0)	27.3
Selling, general and administrative expenses	**(27.3)**	**13.3**	(22.0)	12.8
Depreciation of right-of-use assets	**(10.5)**	**5.1**	(10.1)	5.9
Finance charges related to leases	**(6.4)**	**3.1**	(6.3)	3.7
Adjusted EBITDA[1]	**(19.2)**	**9.4**	(14.9)	8.7
Depreciation of property, plant and equipment	**(4.0)**	**2.0**	(4.0)	2.3
Amortization of intangible assets	**(2.7)**	**1.3**	(3.3)	1.9
Net interest income	**0.2**	**0.1**	0.3	0.2
Loss before income taxes	**(25.8)**	**12.6**	(21.9)	12.7

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

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

Revenue

Total consolidated revenue for the 13-week period ended July 2, 2022 increased $32.5 million or 18.9% to $204.6 million from $172.1 million for the 13-week period ended July 3, 2021, exceeding the Company's top-line first quarter performance in the preceding three fiscal years. The Company's total sales growth was driven by the success of Indigo's omnichannel business; a strong recovery in the retail channel, where traffic levels continued to normalize, and an ecommerce business that sustained incremental growth of 80% to fiscal 2020 levels.

The Company generated double-digit sales growth in both its print and general merchandise businesses. The print business continued to benefit from a resurgence of reading, which the Company has leveraged through the launch of a partnership with TikTok Canada, to further capitalize on the popularity of reading on the platform (#BookTok). Growth in the general merchandise business spanned across all merchandise categories. The Company's top proprietary brands, OUI, NÓTA™ and LOVE & LORE®, continued to gain prominence in the general merchandise assortment, generating over 30% of the quarter's general merchandise revenue growth and demonstrating the increasing value of the Company's exclusive brand portfolio. Indigo is a key gifting destination for its customers, which buoyed sales, particularly in paper products and giftable lifestyle categories, as COVID-19 restrictions eased.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $53.7 million or 59.5% to $143.9 million for the 13-week period ended July 2, 2022 compared to $90.2 million for the same period last year. This growth was driven by an increase in traffic, which continued to improve as COVID-19 containment measures eased. The Company also faced rolling closures of its retail network in the same quarter of the prior year. Customers continue showing an inclination to shop with intent, with customer conversion and average transaction levels well ahead of pre-pandemic levels, however the Company has noted the steady change of consumer behaviour with a return of browsing in the retail network.

Online revenue decreased by $22.6 million or 30.3% to $51.9 million for the 13-week period ended July 2, 2022 compared to $74.5 million for the same period last year. Demand has moderated in the online channel; while more customers are beginning their purchasing journey on the Company's digital platforms, they are taking advantage of the various omnichannel purchasing and fulfillment options available, contributing to high in-store conversion. The online business has sustained a growth rate of 80% compared to pre-pandemic levels, signaling the continued strength of the channel which is a focus of growth and investment for the Company.

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

Revenue from other sources includes corporate sales, *plum*® PLUS membership fees ("*plum*® PLUS revenue"), revenue from unredeemed *plum*® points ("*plum*® breakage"), revenue from unredeemed gift cards ("gift card breakage") and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $1.2 million or 16.0% to $8.7 million for the 13-week period ended July 2, 2022 compared to $7.5 million for the same period last year. The increase was driven by *plum*® PLUS revenue as the paid loyalty tier program continued to attract new customers over the course of the year.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021	% increase (decrease)
Superstores[1]	**123.8**	80.2	54.4
Small format stores[1]	**20.1**	10.0	101.0
Online (including store kiosks)	**51.9**	74.5	(30.3)
Other[2]	**8.7**	7.5	16.0
Total	**204.6**	172.1	18.9

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

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

Revenue by product line is as follows:

	13-week period ended July 2, 2022	13-week period ended July 3, 2021
Print[1]	**56.7%**	60.8%
General merchandise[2]	**39.0%**	34.9%
Other[3]	**4.3%**	4.3%
Total	**100.0%**	100.0%

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

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

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

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased by $21.2 million to $122.8 million for the 13-week period ended July 2, 2022, compared to $101.6 million for the same period last year. As a percentage of total revenue, cost of sales increased to 60.0% compared to 59.0% in the prior year.

Excluding the impact of online shipping costs, cost of sales increased by $23.9 million to $112.8 million for the 13-week period ended July 2, 2022, compared to $88.9 million in the prior year. As a percentage of total revenue, cost of sales excluding the impact of online shipping costs increased to 55.1% compared to 51.7% in the prior year. Current macro-economic conditions have had a negative impact on cost of sales, most notably higher freight costs as a result of the ongoing global supply chain disruptions and additional inflationary pressures.

Online shipping costs decreased by $2.7 million to $10.0 million for the 13-week period ended July 2, 2022, compared to $12.7 million in the prior year. While the variable cost of shipping has increased, impacted by fuel surcharges, the absolute cost decreased compared to the prior year, driven by the tempered demand in the online channel.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $9.8 million to $56.8 million for the 13-week period ended July 2, 2022, compared to $47.0 million for the same period last year. As a percent of total revenue, cost of operations increased to 27.8% compared to 27.3% in the prior year. The increase in cost of operations was impacted by additional variable costs associated with the sales volume generated in the quarter. In the first quarter of the prior year, the Company faced rolling closures of its retail network, which reduced operating costs. Further, the Company benefited from external COVID-19 support in the form of rent abatement of $1.0 million in the current period, compared to $5.7 million in the same period last year through rent abatement, CEWS and CERS. As the retail network showed recovery to the prior year, which drove an increase in total cost of operations, this also allowed the Company to leverage the fixed costs of the channel and drive offsetting rate improvements.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses increased $5.3 million to $27.3 million for the 13-week period ended July 2, 2022, compared to $22.0 million for the same period last year. As a percent of total revenue, selling, general and administrative expenses increased to 13.3% compared to 12.8% for the same period last year. This was driven by an increase in strategic investment, in talent and marketing initiatives, as well as technology, as the Company looks to build on the ecommerce momentum generated over the past two years. Specifically, the Company is investing in modernizing its ecommerce technology, to provide customers with a revitalized digital experience. The Company also recognized no external COVID-19 support in selling, general and administrative expenses in the quarter, compared to $1.6 million in the same period last year.

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 increased by $0.5 million to $16.9 million for the 13-week period ended July 2, 2022, compared to $16.4 million for the same period last year. The increase was primarily a result of higher amortization in the period, impacted by lease renewals recognized over the past four quarters.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, asset disposals, share of loss from equity investment, and impairment, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA changed by $4.3 million to a loss of $19.2 million for the 13-week period ended July 2, 2022, compared to a loss of $14.9 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, was a loss of 9.4% this year, compared to a loss of 8.7% in the prior year. Adjusted EBITDA includes the impact of external COVID-19 support, which totaled $1.0 million in the current quarter, compared to $7.3 million for the same period last year. Excluding the impact of COVID-19 support, adjusted EBITDA was a loss of $20.2 million for the 13-week period ended July 2, 2022, compared to a loss of $22.2 million in the prior year. While the Company noted strong sales growth in the quarter, current macro-economic conditions had a negative impact on costs, most notably higher freight as a result of the ongoing global supply chain disruptions, as well as the effect of inflationary pressures. The Company also incurred additional costs with investment in technology and marketing initiatives, aimed at driving future growth.

A reconciliation of adjusted EBITDA to 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 July 2, 2022 decreased $0.6 million to $6.7 million compared to $7.3 million for the same period last year. The decrease in depreciation and amortization was a result of a lower capital asset base impacted by historical decisions to defer capital investments in light of uncertainty surrounding COVID-19.

Capital expenditures in the first quarter of fiscal 2023 totaled $8.1 million compared to $2.8 million in the same period last year, and were primarily to support the Company's strategic plans for ecommerce growth. Capital expenditures included $6.0 million for digital application software and internal development costs, $2.0 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances, and $0.1 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, remained relatively constant, decreasing by $0.1 million to $0.2 million for the 13-week period ended July 2, 2022, compared to $0.3 million for the same period last year. The Company nets interest income against interest expense.

Income Taxes

The Company recognized a non-cash deferred income tax recovery of $0.4 million for the 13-week period ended July 2, 2022, driven by the movement in its cash flow hedges, compared to recognizing no income taxes in the same period last year. The Company has not recognized deferred tax assets in reported periods, influenced by current operating losses and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors.

The Company used a statutory income tax rate of 26.3% for the first quarter of fiscal 2023 and 26.5% in the same period last year. The Company does not expect to pay cash income taxes in the current year.

Net Loss

The Company recognized a net loss of $25.4 million for the 13-week period ended July 2, 2022 ($0.91 net loss per common share), compared to a net loss of $21.9 million ($0.79 net loss per common share) for the same period last year, a change of $3.5 million. This is inclusive of external COVID-19 support, which totaled $1.0 million in the current year, compared to $7.3 million in the prior year. The Company recognized top-line growth, fueled by the rebound of the retail channel and sustained strength of the online channel, compared to the same period in the prior year when the Company faced rolling store closures. This was offset by additional costs associated with the current macro-economic environment, which notably included increased freight and inflationary costs. Further, the Company has increased strategic investment in the quarter as it embarks on a digital transformation aimed at building on the ecommerce momentum generated over the past two years.

Other Comprehensive Income

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

During the 13-week period ended July 2, 2022, the Company entered into contracts with total notional amounts of C$78.6 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$42.1 million in the same period last year. As at July 2, 2022, the Company had remaining contracts in place representing total notional amounts of C$124.4 million and an unrealized net gain of $1.4 million, compared to total notional amounts of C$56.1 million and an unrealized net loss of $1.6 million as at July 3, 2021.

During the 13-week period ended July 2, 2022, the Company had net gains (net of taxes) from the change in fair value of outstanding cash flow hedges of $1.9 million, compared to net losses (net of taxes) of $1.3 million in the same period last year. During the same respective periods, the Company reclassified net gains (net of taxes) from settled contracts of $0.2 million from other comprehensive income to inventory and expenses, and net losses (net of taxes) of $1.3 million in the same period last year.

The Company also recognized an other comprehensive loss of $0.1 million from foreign currency translation adjustments on consolidation of its foreign subsidiaries for the 13-week period ended July 2, 2022, compared to other comprehensive income of $0.1 million for the same period last year.

These resulted in total other comprehensive income of $1.5 million for the 13-week period ended July 2, 2022, compared to total other comprehensive income of $0.2 million for the same period last year.

Seasonality and First Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and earnings (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the holiday sales season. A disproportionate amount of revenues and earnings are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year. The impact of certain risks, as discussed in the "Risks and Uncertainties" section of the Company's fiscal 2022 MD&A, would have a disproportionate impact to the Company's financial performance should any such events occur during the holiday sales season.

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

(millions of Canadian dollars, except per share data)	Fiscal quarters							
	Q1 Fiscal 2023	Q4 Fiscal 2022	Q3 Fiscal 2022	Q2 Fiscal 2022	Q1 Fiscal 2022	Q4 Fiscal 2021	Q3 Fiscal 2021	Q2 Fiscal 2021
Revenue	**204.6**	220.7	430.7	238.8	172.1	199.0	365.4	205.3
Net earnings (loss)	**(25.4)**	(23.4)	45.1	3.5	(21.9)	(39.5)	30.7	(17.5)
Basic earnings (loss) per common share	**$(0.91)**	$(0.84)	$1.62	$0.13	$(0.79)	$(1.42)	$1.11	$(0.63)
Diluted earnings (loss) per common share	**$(0.91)**	$(0.83)	$1.60	$0.13	$(0.79)	$(1.42)	$1.09	$(0.63)

Overview of Consolidated Balance Sheets

Assets

As at July 2, 2022, total assets decreased $13.3 million to $767.4 million, compared to $780.7 million as at July 3, 2021. This was primarily driven by a decrease in cash and cash equivalents, right-of-use assets and capital assets, and accounts receivable, partially offset by increases in inventories and intangible assets. Cash and cash equivalents decreased by $38.2 million partially due to increased capital investment and additional inventory purchasing to support growing demand. This was partially offset by the cash generated from operations over the past four quarters. Net right-of-use assets and capital assets decreased by $27.8 million and $11.3 million, respectively, as depreciation outpaced capital investments. Accounts receivable decreased by $4.9 million, primarily driven by outstanding amounts receivable from external COVID-19 support programs in the same period last year, which the Company did not benefit from in the current quarter. This decrease was partially offset by additional inventories of $66.8 million. In the prior year, the Company undertook measured inventory purchasing in response to uncertainty surrounding consumer behaviour. In the current year, while looking to expand assortment to drive meaningful growth in the general merchandise business, the Company is also building assortment further in advance of the holiday season to minimize supply chain risk in light of the current macroeconomic environment. Intangible assets also increased by $4.9 million as the Company has increased investment in digital infrastructure and looks to build on the ecommerce momentum generated.

On a fiscal year-to-date basis, total assets decreased $42.0 million to $767.4 million from $809.4 million as at April 2, 2022. The decrease was driven by decreases in cash and cash equivalents, right of use assets, and prepaid expenses, partially offset by increases in inventories and intangible assets. Cash and cash equivalents decreased by $43.3 million, driven by the net loss generated in the quarter, and furthered by additional capital investment and inventory purchasing. Right-of-use assets decreased by $11.3 million, driven by the impact of depreciation which outpaced additions. Prepaid expenses decreased by $5.5 million, primarily due to the timing of quarter end dates and the renewal of annual prepaid amounts. These were partially offset by an increase in inventories of $14.3 million and intangible assets of $3.3 million, for the same reasons discussed above.

Liabilities

As at July 2, 2022, total liabilities decreased $16.3 million to $763.3 million, compared to $779.6 million as at July 3, 2021. This was primarily driven by a decrease in net lease liabilities, partially offset by an increase in accounts payable and accrued liabilities, unredeemed gift card liabilities and deferred revenue. Net lease liabilities decreased by $33.0 million, which reflects the impact of principal and interest repayments over the past year, and lease modifications recognized. Net accounts payable and accrued liabilities increased by $9.5 million, driven primarily by the increase in inventory purchasing discussed above. This was furthered by an increase of $5.3 million in unredeemed gift card liabilities, as activations lifted over the past year on the recovery of the Company's retail network, and an increase of $5.2 million of deferred revenue driven by *plum*® PLUS membership sign ups.

On a fiscal year-to-date basis, total liabilities decreased $18.2 million to $763.3 million, compared to $781.5 million as at April 2, 2022. The decrease in total liabilities was primarily driven by a decrease in net lease liabilities of $12.3 million, for the reasons discussed above, and net accounts payable and accrued liabilities, which decreased by $8.1 million related to the timing of payments on inventory purchasing. This was partially offset by an increase of $1.9 million in unredeemed gift card liabilities, as activations outpaced redemptions in the quarter.

Equity

Total equity as at July 2, 2022 increased $3.1 million to $4.2 million, compared to $1.1 million as at July 3, 2021, driven by an increase of $2.4 million in accumulated other comprehensive income, primarily due to the change in fair value of outstanding cash flow hedges. This was partially offset by the decrease in retained deficit of $0.2 million, impacted by the net loss recognized over the past four quarters.

On a fiscal year-to-date basis, total equity decreased $23.6 million to $4.2 million, compared to $27.8 million as at April 2, 2022, driven primarily by the net loss recognized in the quarter.

The weighted average number of common shares outstanding for the first quarter of fiscal 2023 was 27,813,467 compared to 27,737,475 in the prior year. As at August 10, 2022, the number of outstanding common shares was 27,349,711 with a book value of $227.1 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.

The Company reported working capital of $31.5 million as at July 2, 2022, compared to $28.2 million as at July 3, 2021 and $58.3 million as at April 2, 2022. The increase in working capital compared to the prior year was driven by the discussed increase in inventories, partially offset by a decrease in cash and cash equivalents and accounts receivables and increases in net accounts payable and accrued liabilities, unredeemed gift card liabilities and deferred revenue.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $43.3 million for the 13-week period ended July 2, 2022 compared to a decrease of $3.5 million in the same period last year. The change was driven by cash flows used for operating activities of $17.4 million, for investing activities of $7.9 million and for financing activities of $18.0 million.

Cash Flows From (Used for) Operating Activities

The Company used cash flows of $17.4 million for operating activities in the 13-week period ended July 2, 2022 compared to generating cash flows of $15.2 million in the same period last year, a change of $32.6 million. This was primarily a result of cash used in working capital, which increased by $29.3 million. This was driven by the noted build up in inventories, and timing differences associated with accounts payable and accrued liabilities. Furthering the change in cash flows used for operating activities was the $4.3 million decrease in adjusted EBITDA recognized in the period.

Cash Flows Used for Investing Activities

The Company used cash flows of $7.9 million for investing activities in the 13-week period ended July 2, 2022 compared to using $2.0 million of cash flows in the same period last year, a change of $5.9 million. The Company has recommenced capital investment, after a conservative approach over the prior two years, stemming from uncertainty surrounding the COVID-19 pandemic. The Company has embarked on a digital transformation strategy to fully re-design a connected shopping experience and modernize its ecommerce technology.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Furniture, fixtures, equipment, and leasehold improvements, net	**2.0**	0.7
Intangible assets (digital application software and internal development costs)	**6.0**	2.0
Technology equipment	**0.1**	0.1
Total	**8.1**	2.8

Cash Flows Used for Financing Activities

The Company used cash flows of $18.0 million for financing activities in the 13-week period ended July 2, 2022 compared to using cash flows of $17.0 million in the same period last year, a change of $1.0 million. This was driven by higher repayments on the Company's IFRS 16 lease obligations.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the holiday season. The Company has minimal accounts receivables and the majority of book products are purchased on trade terms with the right to return to suppliers at full credit. The Company's main sources of capital are cash flows generated from operations and cash and cash equivalents.

During the first quarter, the Company entered into a secured, revolving credit facility of $25 million to enhance its liquidity. The non-interest bearing facility was issued from a related party on favourable commercial terms to Indigo. As at July 2, 2022, no advances were made on the facility.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, it is expected that the Company's current cash position, future cash flows generated from operations and available revolving line of credit will be sufficient to meet its working capital requirements for fiscal 2023. 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 and the current macro-economic environment, among others. 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 current macro-economic environment may create a number of additional risks to obtaining such funding, such as the ability to access capital at a reasonable cost. Also, a long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

For additional discussion surrounding risks and uncertainties related to liquidity and COVID-19, refer to the "Risks and Uncertainties" section in the Company's fiscal 2022 Annual Report.

Accounting Policies

Critical Accounting Judgments and Estimates

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

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

The Company evaluates its judgments and estimates on an ongoing basis and methods used to calculate critical accounting estimates are consistent with prior periods, except as noted. The significant accounting policies and significant judgments and estimates of the Company are described in notes 3 and 4 of the consolidated financial statements contained in the Company's fiscal 2022 Annual Report.

New Accounting Pronouncements

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

In January 2020, the International Accounting Standards Board ("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, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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

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

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

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

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

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on April 3, 2022 and ended on July 2, 2022 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. 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 future impacts of the COVID-19 pandemic; 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 income and losses from equity investments and income taxes. As retail occupancy leases represent a material component of the Company's cost structure and are managed with its operating costs, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. As a result, IFRS 16 right-of-use asset depreciation and associated lease finance costs are reflected in the key metric.

Reconciliations between adjusted EBITDA and 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 August 10, 2022.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at July 2, 2022**	As at July 3, 2021	As at April 2, 2022
ASSETS			
Current			
Cash and cash equivalents (note 5)	**43,168**	81,412	86,469
Accounts receivable	**15,403**	20,253	12,941
Inventories (note 6)	**288,184**	221,389	273,849
Prepaid expenses	**7,971**	10,005	13,508
Derivative assets (note 7)	**1,431**	–	–
Other assets	**1,644**	1,752	3,246
Total current assets	**357,801**	334,811	390,013
Property, plant, and equipment, net	**62,613**	73,925	64,319
Right-of-use assets, net	**322,450**	350,207	333,767
Intangible assets, net	**24,459**	19,604	21,171
Equity investment, net	**97**	2,156	97
Total assets	**767,420**	780,703	809,367
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**170,102**	159,931	178,138
Unredeemed gift card liability	**64,578**	59,300	62,653
Provisions	**531**	2,455	472
Deferred revenue	**21,367**	16,139	20,699
Short-term lease liabilities (note 8)	**69,679**	67,240	69,100
Derivative liabilities (note 7)	**47**	1,572	631
Total current liabilities	**326,304**	306,637	331,693
Long-term accrued liabilities	**991**	1,615	1,068
Long-term provisions	**744**	678	702
Long-term lease liabilities (note 8)	**435,211**	470,684	448,084
Total liabilities	**763,250**	779,614	781,547
Equity			
Share capital (note 9)	**227,090**	226,999	227,090
Contributed surplus (note 10)	**14,861**	14,066	14,618
Retained deficit	**(238,810)**	(238,614)	(213,403)
Accumulated other comprehensive income (loss) (note 7)	**1,029**	(1,362)	(485)
Total equity	**4,170**	1,089	27,820
Total liabilities and equity	**767,420**	780,703	809,367

See accompanying notes

On behalf of the Board:

Heather Reisman

Heather Reisman, Director

Anne Marie O'Donovan, Director

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Revenue (note 11)	**204,556**	172,080
Cost of sales	**(122,808)**	(101,643)
Gross profit	**81,748**	70,437
Operating, selling, and other expenses (notes 8 and 11)	**(101,343)**	(86,424)
Operating loss	**(19,595)**	(15,987)
Net interest expense (note 8)	**(6,179)**	(5,959)
Loss before income taxes	**(25,774)**	(21,946)
Income tax recovery	**367**	–
Net loss	**(25,407)**	(21,946)
Other comprehensive income (note 7)		
Items that are or may be reclassified subsequently to net loss, net of taxes:		
Change in fair value of cash flow hedges	**1,890**	(1,278)
Reclassification of realized loss (gain)	**(242)**	1,328
Foreign currency translation adjustment	**(134)**	108
Other comprehensive income	**1,514**	158
Total comprehensive loss	**(23,893)**	(21,788)
Net loss per common share (note 12)		
Basic	**$(0.91)**	$(0.79)
Diluted	**$(0.91)**	$(0.79)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, April 3, 2021	226,986	13,782	(216,668)	(1,520)	22,580
Net loss for the period	–	–	(21,946)	–	(21,946)
Exercise of options (note 9)	13	(4)	–	–	9
Share-based compensation (note 10)	–	288	–	–	288
Cash flow hedges (note 7)	–	–	–	50	50
Foreign currency translation adjustment	–	–	–	108	108
Balance, July 3, 2021	226,999	14,066	(238,614)	(1,362)	1,089
Balance, April 2, 2022	**227,090**	**14,618**	**(213,403)**	**(485)**	**27,820**
Net loss for the period	**–**	**–**	**(25,407)**	**–**	**(25,407)**
Share-based compensation (note 10)	**–**	**243**	**–**	**–**	**243**
Cash flow hedges (note 7)	**–**	**–**	**–**	**1,648**	**1,648**
Foreign currency translation adjustment	**–**	**–**	**–**	**(134)**	**(134)**
Balance, July 2, 2022	**227,090**	**14,861**	**(238,810)**	**1,029**	**4,170**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
OPERATING ACTIVITIES		
Net loss	**(25,407)**	(21,946)
Adjustments to reconcile net loss to cash flows from operating activities		
Depreciation of property, plant, and equipment	**3,976**	4,039
Depreciation of right-of-use assets	**10,479**	10,121
Amortization of intangible assets	**2,736**	3,303
Loss on disposal of capital assets	**6**	14
Share-based compensation (note 10)	**243**	288
Deferred income tax recovery	**(367)**	–
Other	**(152)**	(753)
Net change in non-cash working capital balances related to operations (note 13)	**(15,077)**	14,193
Interest expense (note 8)	**6,357**	6,257
Interest income	**(178)**	(298)
Cash flows from (used for) operating activities	**(17,384)**	15,218
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	**(2,091)**	(839)
Addition of intangible assets	**(6,024)**	(1,991)
Proceeds from disposal of equity investment (note 14)	–	516
Interest received	**178**	298
Cash flows used for investing activities	**(7,937)**	(2,016)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 8)	**(11,636)**	(10,705)
Interest paid (note 8)	**(6,357)**	(6,257)
Proceeds from share issuances	–	9
Cash flows used for financing activities	**(17,993)**	(16,953)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**13**	228
Net decrease in cash and cash equivalents during the period	**(43,301)**	(3,523)
Cash and cash equivalents, beginning of period	**86,469**	84,935
Cash and cash equivalents, end of period	**43,168**	81,412

See accompanying notes

Notes to Consolidated Financial Statements

July 2, 2022
(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 2022 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 2022 Annual Report.

These unaudited interim condensed consolidated financial statements for the 13-week period ended July 2, 2022 (including comparatives) were approved by the Board of Directors on August 10, 2022.

COVID-19 Pandemic
On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. Since the pandemic began, the Company has experienced rolling closures and capacity restrictions to its retail network, as directed by local governments and public health authorities. This notably included Canada-wide closures that negatively impacted the Company's retail operations. All stores remained opened throughout the first quarter of fiscal 2023, while 93 retail locations were closed for part of the first quarter in the prior year.

The impact of the outbreak on the financial results of the Company will depend on future developments, including government imposed restrictions such as closures, quarantine policies and social distancing measures, as well as the indirect impacts to the global economy. All of these had, and can continue to have, a negative impact on the Company's retail operations, distributions centres, head office operations and supply chain, and could result in the reassessment of its significant accounting estimates, including but not limited to impairment of assets.

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

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

3. CHANGES IN ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2022 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

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

In January 2020, the IASB issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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

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

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

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 amount of revenue is typically earned in the third fiscal quarter. Therefore, the results of operations for the 13-week periods ended July 2, 2022 and July 3, 2021 are not indicative of the results of other periods.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**As at July 2, 2022**	As at July 3, 2021	As at April 2, 2022
Cash	**39,267**	76,664	83,596
Restricted cash	**3,873**	4,720	2,845
Cash equivalents	**28**	28	28
Cash and cash equivalents	**43,168**	81,412	86,469

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

6. INVENTORIES

The cost of inventories recognized as an expense during the 13-week period ended July 2, 2022 was $116.3 million (2022 – $95.2 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13-week period ended July 2, 2022 was $2.8 million (2022 – $0.7 million). The amount of inventory with net realizable value equal to cost was $3.5 million as at July 2, 2022 (July 3, 2021 – $2.5 million, April 2, 2022 – $2.8 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). Furthermore, the Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts is identical to the hedged risk components.

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

During the 13-week period ended July 2, 2022, the Company entered into contracts with total notional amounts of C$78.6 million to purchase U.S. dollar/Canadian dollar currency pair forwards (2022 – C$42.1 million). As at July 2, 2022, the Company had remaining contracts in place representing total notional amounts of C$124.4 million (July 3, 2021 – C$56.1 million) at an average forward rate of 1.28 (2022 – 1.27). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at July 2, 2022 resulted in the recognition of a derivative asset of $1.4 million (July 3, 2021 – no derivative asset, April 2, 2022 – no derivative asset) and a derivative liability of below $0.1 million (July 3, 2021 – $1.6 million, April 2, 2022 - $0.6 million).

During the 13-week period ended July 2, 2022, the Company had net gains of $1.9 million (net of taxes) from the change in fair value of outstanding cash flow hedges (2022 – net loss of $1.3 million, net of taxes). During the same period, the Company reclassified net gains from settled contracts out of other comprehensive income to inventory and expenses of $0.2 million (net of taxes) (2022 – net losses of $1.3 million, net of taxes). This resulted in other comprehensive income of $1.6 million for the 13-week period ended July 2, 2022 (2022 – other comprehensive income of $0.1 million).

Potential causes of mismatch between the hedging instrument and hedged item which would generate ineffectiveness include changes in credit risk, a timing mismatch between the maturity of the instrument and the future transaction date, and/or the hedged transaction does not occur. Reclassified amounts resulting from hedge ineffectiveness and realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 13-week periods ended July 2, 2022 and July 3, 2021.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Balance, beginning of period	**517,184**	550,274
Lease modifications included in the scope of IFRS 16	**(1,499)**	(1,155)
Accretion of lease liabilities	**6,357**	6,257
Repayment of interest and principal on lease liabilities	**(17,993)**	(16,962)
Foreign currency adjustment	**841**	(490)
Balance, end of period	**504,890**	537,924

9. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended July 2, 2022		13-week period ended July 3, 2021		52-week period ended April 2, 2022	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,349,711**	**227,090**	27,273,961	226,986	27,273,961	226,986
Issued during the period						
Options exercised	–	–	9,500	13	75,750	104
Balance, end of period	**27,349,711**	**227,090**	27,283,461	226,999	27,349,711	227,090

10. SHARE-BASED COMPENSATION

As at July 2, 2022, 2,748,250 stock options were outstanding with exercise prices ranging from $1.00 to $18.40. Of these outstanding stock options, 2,089,750 were exercisable at a weighted average exercise price of $6.23. As at July 3, 2021, there were 3,259,025 stock options outstanding, 1,582,150 of which were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13-week period ended July 2, 2022, the pre-forfeiture value of options granted was below $0.1 million (2022 – $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 July 2, 2022	13-week period ended July 3, 2021
Black-Scholes option pricing assumptions		
Risk-free interest rate	**3.0%**	0.4%
Expected volatility	**70.2%**	77.1%
Expected time until exercise	**2.5 years**	2.5 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**24.1%**	25.2%

Directors' Compensation

The Company had a Directors' Deferred Stock Unit Plan ("legacy DSU Plan") for Directors' annual retainer fees and other Board-related compensation up to the end of fiscal 2021. Pursuant to the legacy DSU Plan, participating Directors annually elected whether to receive these fees in the form of equity-settled deferred stock units ("legacy DSUs"), or to receive up to 50% of this compensation in cash. The Company ceased issuing DSUs under this plan in fiscal 2022; however, legacy DSUs issued and outstanding under this plan have not been modified and the number of shares reserved for issuance under this plan continues to be 500,000. Upon the resignation of a participating director, each legacy DSU granted to such Director will be convertible into one common share of the Company. The fair value of legacy DSUs is equal to the traded price of the Company's common shares on the grant date, and recorded in contributed surplus until conversion. The grant date fair value of the outstanding legacy DSUs recorded in contributed surplus as at July 2, 2022 is $3.2 million (July 3, 2021 – $3.2 million).

The Company established a new Deferred Share Unit Plan for Cash Redemption ("New DSU Plan") on June 1, 2021, to grant cash-settled share-based instruments ("cash-settled DSUs") for participating Directors' annual retainer fees and other Board-related compensation for fiscal 2022 onwards. When exercised, participants will receive a payment in cash equal to the fair market value of the common shares represented by the cash-settled DSUs on the date of redemption. The New DSU Plan continues to allow participating Directors to annually elect to receive up to 50% of their compensation in cash. Cash-settled DSUs represent a liability, which is recorded in current liabilities on the Consolidated Balance Sheets at an IFRS 2 fair value, determined using an option pricing model to reflect the traded price of the Company's common shares as at each reporting date. All changes to the fair value of the cash-settled DSUs is recorded in the Consolidated Statements of Loss and Comprehensive Loss.

All Directors' compensation during the 13-week period ended July 2, 2022 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2022 – all cash settled, with the exception of cash awards of less than $0.1 million).

The Company issued 47,998 cash-settled DSUs with a value of $0.2 million during the year (2022 – 14,584 cash-settled DSUs with a value of $0.1 million). The number of cash-settled DSUs to be issued to each Director is based on a set fee schedule. The fair value of outstanding cash-settled DSUs recorded in current liabilities as at July 2, 2022 is $0.2 million (July 3, 2021 – less than $0.1 million). During the periods ended July 2, 2022 and July 3, 2021, the Company did not record any material changes to the fair value of cash-settled DSU obligations.

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

	13-week period ended July 2, 2022
Black-Scholes option pricing assumptions	
Risk-free interest rate	**3.1%**
Expected volatility	**74.0%**
Expected time until exercise	**3.0 years**
Expected dividend yield	**–**

11. SUPPLEMENTARY OPERATING INFORMATION

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Print[1]	**116,001**	104,556
General merchandise[2]	**79,817**	60,070
Other[3]	**8,738**	7,454
Total	**204,556**	172,080

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

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

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

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Superstores[1]	**123,847**	80,158
Small format stores[1]	**20,119**	9,981
Online (including store kiosks)	**51,852**	74,487
Other[2]	**8,738**	7,454
Total	**204,556**	172,080

1 Includes sales on orders placed on *indigo.ca* and fulfilled through store pick up.
2 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, and Kobo revenue share.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Wages, salaries, and bonuses	**44,622**	40,810
Short-term benefits expense	**4,733**	4,848
Termination benefits expense	**2,004**	280
Retirement benefits expense	**551**	493
Share-based compensation	**243**	288
Total employee benefits expense	**52,153**	46,719

Termination benefits arise when the Company terminates certain employment agreements.

The Company recognized payroll subsidies of $3.7 million from the COVID-19 Canada Emergency Wage Subsidy ("CEWS"), and rent subsidies of $2.8 million from the Canada Emergency Rent Subsidy ("CERS") in the 13-week period ended July 3, 2021. These subsidies were recorded as reductions to the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses and associated eligible rent expenses recognized in cost of operations, respectively. Both programs ended in fiscal 2022. The Company did not qualify for subsidies under any newly introduced programs in the quarter ended July 2, 2022.

12. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the July 2, 2022 and July 3, 2021 diluted loss per share calculations.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Accounts receivable	**(2,462)**	2,723
Inventories	**(14,335)**	(6,275)
Prepaid expenses	**5,537**	2,273
Other assets	**1,602**	368
Accounts payable and accrued liabilities (current and long-term)	**(8,113)**	14,263
Unredeemed gift card liability	**1,925**	1,247
Provisions (current and long-term)	**101**	(59)
Deferred revenue	**668**	(347)
Net change in non-cash working capital balances	**(15,077)**	14,193

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 Team. Key management personnel remuneration includes the following:

(thousands of Canadian dollars)	**13-week period ended July 2, 2022**	13-week period ended July 3, 2021
Wages, salaries, and bonus	**2,545**	1,650
Short-term benefits expense	**184**	64
Termination benefits expense	**860**	–
Retirement benefits expense	**17**	16
Share-based compensation	**152**	199
Directors' compensation	**87**	37
Total remuneration	**3,845**	1,966

Transactions with Shareholders

During the first quarter of fiscal 2023, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In the quarter, the Company paid $0.1 million for these transactions (2022 – $0.1 million). As at July 2, 2022, Indigo had $0.1 million payable to these companies under standard payment terms (July 3, 2021 – less than $0.1 million). 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 first quarter of fiscal 2023, the Company entered into a secured revolving credit facility of $25 million with a company controlled by Mr. Gerald W. Schwartz. The non-interest bearing facility was issued on favourable commercial terms to Indigo. The facility was put in place in response to uncertainty surrounding the macro-economic environment, with its purpose to allow the Company to manage the seasonal nature of cash flows in the most effective manner. As at July 2, 2022, no advances were made on the facility, which has a maturity date of February 1, 2023.

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 no transactions with Unplug during the 13-week periods ended July 2, 2022 and July 3, 2021.

During fiscal 2020, the Company sold its equity investments in Calendar Club of Canada Limited Partnership ("Calendar Club") and Calendar Club of Canada Ltd. (the general partner of the partnership) to Paris Southern Lights Inc. (a minority partner in the partnership). The proceeds outstanding at the time of sale were paid in installments, with the final payments made in the prior year.

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