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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 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 and 39-week periods ended January 1, 2022 and December 26, 2020. In this MD&A, because of the global pandemic and its impact to the Company's operations and financial performance, management has derived certain analysis based on the unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 28, 2019, which have been referred to as the "pre-pandemic" comparable periods. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." Except as otherwise noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2021 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements.

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

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness and lifestyle products that support customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores under the *Indigo* and *Chapters* names, as well as 85 small format stores under the banners *Coles* and

Indigospirit. Retail operations are seamlessly integrated with the Company's digital channels, including the www.indigo.ca website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

The Company is inclusive of its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its 20% equity investment in Unplug Meditation, LLC ("Unplug").

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

Statement on COVID-19

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

The Company undertook the following actions in the 39-week period ended January 1, 2022:

- Participated in rolling closures of its retail network, as directed by local governments and public health authorities. This notably included province-wide closures in Ontario that negatively impacted the Company's retail operations through the majority of the first quarter; store locations with external entrances re-opened on June 1, 2021, with remaining store locations in the province having re-opened on June 29, 2021. The Company successfully executed on the reopening of 93 closed retail stores with a focus on driving operational effectiveness.
- In December 2021, the Company responded to the adverse impact of the Omicron variant on retail foot traffic patterns and implemented mandated government capacity restrictions, which most notably included a fifty percent reduction in capacity in the province of Ontario during critical selling weeks.
- Recognized $5.4 million of COVID-19 occupancy expense abatement as a direct response to the economic impact of the COVID-19 pandemic, compared to $14.8 million in the same period last year. The Company continues to

negotiate with landlords regarding abatement to share the financial burden of COVID-19.
- Applied for the Canada Emergency Rent Subsidy ("CERS") program and recognized rent subsidies of \$2.9 million, compared to \$0.3 million in the same period last year.
- Applied for the Canada Emergency Wage Subsidy ("CEWS") program and recognized payroll subsidies of \$2.3 million, compared to \$22.9 million in the same period last year.
- Entered into a \$25 million related party revolving line of credit to enhance the Company's liquidity in response to uncertainty surrounding the pandemic's financial impacts. No advances were made on the non-interest bearing facility, which matured on February 1, 2022.
- Forecasted inbound inventory receipts to account for modest delays as a result of disruption to the global supply chain based on the monitored impacts of higher inbound freight costs and constrained shipping capacity.
- Effectively mitigated disruption to its print business, stemming from the raw material scarcity and distribution delays experienced across the publishing industry, by shifting inventory purchases earlier in the planning season. As a result, the Company had sufficient inventory on-hand for bestselling titles and its back list catalogue to fulfill an increased demand for books this holiday season.

The Company's top priority remains the health and safety of its customers, employees and communities, and extensive health and safety measures have been employed that meet or exceed the guidance and direction from public health authorities.

Future Developments

The COVID-19 pandemic has introduced volatility to the economy and consumer spending, disrupted supply chains, instigated market labour shortages and created significant volatility in financial markets on a global scale, the extent of which will depend on future developments that are highly uncertain and cannot be reliably forecasted.

These future developments include new information regarding vaccination rates and efficacy, disease immunity, the recurrence of waves of significant infections, as well as ongoing consumer fears about the disease that could adversely affect traffic to Indigo's stores and demand for its products, among others.

The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impact of the COVID-19 outbreak on the Company. Given this unprecedented period of uncertainty, there can be no assurances regarding: the closure status of retail locations as a result of COVID-19;

the COVID-19-related impacts on the Company's business, operations and performance; credit, foreign currency, and liquidity risks generally; and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company. Investors should also refer to the "Risks and Uncertainties" section in the Company's fiscal 2021 Annual Report.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended January 1, 2022 and December 26, 2020.

(millions of Canadian dollars)	**13-week period ended January 1, 2022**	**% Revenue**	13-week period ended December 26, 2020	% Revenue	**39-week period ended January 1, 2022**	**% Revenue**	39-week period ended December 26, 2020	% Revenue
Revenue	**430.7**	**100.0**	365.4	100.0	**841.6**	**100.0**	705.8	100.0
Cost of sales	**(252.4)**	**58.6**	(217.9)	59.6	**(482.9)**	**57.4**	(440.8)	62.5
Cost of operations	**(80.0)**	**18.6**	(69.4)	19.0	**(186.6)**	**22.2**	(154.2)	21.8
Selling, general and administrative expenses	**(32.7)**	**7.6**	(23.9)	6.5	**(79.3)**	**9.4**	(57.2)	8.1
Depreciation of right-of-use assets	**(7.5)**	**1.7**	(10.2)	2.8	**(26.7)**	**3.2**	(31.7)	4.5
Finance charges related to leases	**(6.1)**	**1.4**	(6.2)	1.7	**(18.6)**	**2.2**	(19.1)	2.7
Adjusted EBITDA[1]	**52.0**	**12.1**	37.8	10.3	**47.5**	**5.6**	2.8	0.4
Depreciation of property, plant and equipment	**(4.0)**	**0.9**	(4.1)	1.1	**(12.0)**	**1.4**	(13.0)	1.8
Amortization of intangible assets	**(2.8)**	**0.7**	(3.2)	0.9	**(9.3)**	**1.1**	(9.7)	1.4
Gain on disposal of capital assets	–	–	–	–	–	–	0.9	0.1
Net interest income	**0.1**	**0.0**	0.2	0.1	**0.5**	**0.1**	0.6	0.1
Earning (loss) before income taxes	**45.2**	**10.5**	30.7	8.4	**26.7**	**3.2**	(18.4)	2.6

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

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies. A reconciliation of adjusted EBITDA to earnings (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 January 1, 2022 increased $65.3 million or 17.9% to $430.7 million from $365.4 million for the 13-week period ended December 26, 2020. Higher revenues reflect a strong product strategy and the year-over-year recovery of the Company's retail channel, a trajectory that was dampened by disruption from the Omicron COVID-19 variant in December. The Company's lifestyle and toy businesses performed remarkably well, driven by the respective success of its proprietary brand program and strategic inventory buys. Sales further benefited from a renewed interest in reading, fueled by a re-engaged core customer and a younger demographic influenced by the strength of the #BookTok community on TikTok. Together with the strength of this season's product assortment, strategic shifts in the Company's promotional cadence allowed for higher full-price sell-through, lifting net revenues for the period.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $67.7 million or 29.4% to $298.1 million for the 13-week period ended January 1, 2022 compared to $230.4 million in the same period last year. High conversion and full-price sell-through continued as customers shopped with intent and the Company's product assortment strongly resonated. While a strong sales trajectory delivered a full rebound to pre-pandemic sales by mid-third quarter, Omicron had an adverse impact to retail traffic and performance during critical selling weeks that included Christmas and Boxing Day.

Online revenue decreased by $3.5 million or 2.8% to $122.0 million for the 13-week period ended January 1, 2022 compared to $125.5 million in the same period last year. The online channel experienced a moderate decline to last year as retail rebounded, but delivered exceptionally strong results compared to pre-pandemic levels for the 13-week period ended December 28, 2019, sustaining 86.3% sales growth. The online business has also evolved over the past two years, with higher-priced merchandise driving up average order values for the channel.

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"), revenue-sharing with Rakuten Kobo Inc. ("Kobo"), irewards card sales, and other non-merchandise revenue. Revenue from other sources increased $1.1 million or 11.6% to $10.6 million for the 13-week period ended January 1, 2022 compared to $9.5 million in the same period last year, driven by growth in *plum* PLUS revenue, a result of an increased membership base and refinements to its revenue recognition pattern based on historical spending data.

On a fiscal year-to-date basis, total consolidated revenue increased by $135.8 million or 19.2% to $841.6 million compared to $705.8 million for the same period last year. The Company's retail channel delivered year-over-year recovery driven by a strong product strategy and high in-store conversion, compensating for retail traffic that remains depressed by dynamic pandemic conditions. Customers continued to positively respond to the variety of store and curbside pick-up options offered, demonstrating their long-term value. Revenues also benefited from the one-time payment of $17.0 million from Starbucks Coffee Canada, Inc. ("Starbucks") recognized in the second quarter, on the renegotiation of its partnership with the Company.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	% increase (decrease)
Superstores[1]	**257.2**	196.1	31.2
Small format stores[1]	**40.9**	34.3	19.2
Online (including store kiosks)	**122.0**	125.5	(2.8)
Other[2]	**10.6**	9.5	11.6
Total	**430.7**	365.4	17.9

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, Kobo revenue share, and irewards.

Revenue by product line is as follows:

	13-week period ended January 1, 2022	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Print[1]	**48.3%**	52.6%	**52.6%**	57.1%
General merchandise[2]	**49.2%**	44.8%	**42.3%**	40.4%
Other[3]	**2.5%**	2.6%	**5.1%**	2.5%
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 corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

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 $34.5 million to $252.4 million for the 13-week period ended January 1, 2022, compared to $217.9 million for the same period last year. As a percent of total revenue, cost of sales decreased to 58.6% compared to 59.6% for the same period last year.

Excluding the impact of online shipping costs, cost of sales increased by $32.4 million to $229.8 million for the 13-week period ended January 1, 2022, compared to $197.4 million for the same period last year. As a percentage of total revenue, cost of sales excluding the impact of online shipping costs decreased to 53.4% compared to 54.0%. The Company delivered its highest-ever total merchandise margin dollars, at a merchandise margin rate consistent with its record performance. This was partially driven by the continued improvements in the retail channel, which typically has a higher margin profile. Further, the Company tightened its promotional cadence, which together with a strengthened product assortment, delivered improvements in its product margin rates. These improvements blunted the impacts of higher inbound freight costs triggered by global supply chain constraints.

Online shipping costs increased by $2.1 million to $22.6 million for the 13-week period ended January 1, 2022, compared to $20.5 million for the same period last year, due to an increase in fuel costs and additional shipping costs incurred in response to the severe flooding in British Columbia.

On a fiscal year-to-date basis, cost of sales increased by $42.1 million to $482.9 million compared to $440.8 million for the same period last year. Year-to-date cost of sales as a percent of total revenue decreased to 57.4% compared to 62.5% in the same period last year.

Excluding the impact of online shipping costs, cost of sales increased by $43.7 million to $438.1 million for the 39-week period ended January 1, 2022, compared to $394.4 million for the same period last year. As a percentage of total revenue, cost of sales excluding the impact of online shipping costs decreased to 52.1% compared to 55.9%, a result of the Company's strategic focus on strengthening omnichannel merchandise margin rates, as discussed.

Online shipping costs decreased by $1.6 million to $44.8 million for the 39-week period ended January 1, 2022, compared to $46.4 million for the same period last year, largely due to year-to-date tempered demand in the online channel and improvements in online shipping unit economics driven by the diversification of final-mile carriers.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $10.6 million to $80.0 million for the 13-week period ended January 1, 2022, compared to $69.4 million for the same period last year. As a percent of total revenue, cost of operations decreased to 18.6%, compared to 19.0% in the prior year. The increase in cost of operations was primarily a result of higher sales volume and the associated variable costs, including incremental labour requirements. This cost increase was furthered by the current period reduction in external COVID-19 support recognized in cost of operations. Net CEWS, CERS and occupancy expense abatement totaled $1.8 million in the 13-week period ended January 1, 2022, compared to $11.5 million in the same period last year. The Company is still in negotiations with its landlords regarding rent abatement to address the financial impacts of the most recent wave of COVID-19 related store closures.

On a fiscal year-to-date basis, cost of operations increased by $32.4 million to $186.6 million compared to $154.2 million for the same period last year. Year-to-date cost of operations as a percent of total revenue increased to 22.2% compared to 21.8% for the same period last year. This increase was primarily driven by the noted increase in volume-related costs and furthered by the reduction in external COVID-19 support recognized in cost of operations, which totaled $8.4 million in the 39-week period ended January 1, 2022, compared to $27.9 million in the same period last year. Year-to-date, the Company realized $1.3 million of net benefit from the CEWS (partial benefit attributed to cost of operations), which offset labour charges in the retail and online networks, compared to $12.8 million in the same period last year. The Company also realized $2.9 million of rent subsidies from the CERS program, and $4.3 million in reductions to its cost of operations relating to COVID-19 occupancy expense abatement, compared to CERS of $0.3 million and $14.8 million of occupancy expense abatement in the same period last year.

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 by $8.8 million to $32.7 million for the 13-week period ended January 1, 2022, compared to $23.9 million for the same period last year. As a percent of total revenue, selling, general and administrative expenses increased to 7.6%, compared to 6.5% for the same period last year. This increase represents a return to pre-pandemic fiscal 2020 spending levels as the Company looks to build on the ecommerce momentum generated, following a tightening of discretionary spending in the prior year. The Company did not qualify for CEWS in the current quarter, but recognized net $1.4 million of CEWS (partial benefit attributed to selling, general and administrative expenses) in the same period last year.

On a fiscal year-to-date basis, selling, general and administrative expenses increased $22.1 million to $79.3 million compared to $57.2 million in the same period last year. Year-to-date selling, general and administrative expenses as a percent of total revenue increased to 9.4% compared to 8.1% in the same period last year. This was driven by the noted increase in strategic spending, which included a reinstated paid-marketing program in the current year. The change was furthered by a reduction in net external COVID-19 support from the CEWS program recognized in selling, general and administrative expenses, which totaled $1.0 million in the 39-week period ended January 1, 2022, compared to $10.1 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 decreased by $2.8 million to $13.6 million for the 13-week period ended January 1, 2022, compared to $16.4 million for the same period last year. The decrease was primarily a result of lower amortization in the period, as lease modifications recognized decreased the carrying value of the right-of-use assets.

On a fiscal year-to-date basis, lease charges decreased by $5.5 million to $45.3 million compared to $50.8 million in the same period last year, for the same reasons discussed above.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA improved by $14.2 million to $52.0 million for the 13-week period ended January 1, 2022, compared to $37.8 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, improved to 12.1% this quarter, compared to 10.3% for the same period last year. Higher Adjusted EBITDA was driven by strong sales and record quarterly merchandise margin performance, a result of a strong product assortment and strategic shifts made to the Company's promotional cadence and discounting activities. This was furthered by a reduction in amortization on the Company's right-of-use assets, as discussed. This was achieved against lower external COVID-19 support and elevated freight and last-mile logistics costs associated with a challenged global supply chain.

On a fiscal year-to-date basis, Adjusted EBITDA improved $44.7 million to $47.5 million compared to $2.8 million in the same period last year. Year-to-date Adjusted EBITDA as a percent of total revenue improved to 5.6%, compared to 0.4% for the same period last year. Higher Adjusted EBITDA was primarily driven by the reasons discussed above; a meaningful growth to the top-line and sustained merchandise margin improvements. Adjusted EBITDA also benefited from a one-time payment of $17.0 million, resulting from the renegotiation of the partnership with Starbucks.

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 January 1, 2022 decreased $0.5 million to $6.8 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 in response to historical decisions to defer capital investments in light of uncertainty surrounding COVID-19. Capital expenditures in the third quarter of fiscal 2022 totaled $2.6 million compared to $3.9 million for the same period last year, and were primarily to support the Company's strategic plans for e-commerce growth. Capital expenditures included $2.1 million for digital application software and internal development costs; $0.3 million for technology equipment; and $0.2 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances. None of the capital expenditures were financed through leases.

On a fiscal year-to-date basis, depreciation and amortization decreased by $1.4 million to $21.3 million compared to $22.7 million in the same period last year, for the reasons discussed above. Year-to-date, the Company spent $9.3 million on capital expenditures compared to $10.2 million in the prior year. Capital expenditures for the current year included $7.7 million for digital application software and internal development costs; $1.0 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances; and $0.6 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 $0.1 million to $0.1 million for the 13-week period ended January 1, 2022, compared to $0.2 million for the same period last year. The Company nets interest income against interest expense.

On a fiscal year-to-date basis, net interest income remained relatively constant at $0.5 million compared to $0.6 million in the same period last year.

Income Taxes

The Company recognized a non-cash deferred income tax expense of below $0.1 million for the 13-week period ended January 1, 2022, compared to recognizing no income taxes for the same period last year, driven by the movement in its cash flow hedges. The Company recognized no deferred income tax expense on net earnings due to the offsetting deferred income tax recovery from the re-recognition of deferred tax assets.

On a fiscal year-to-date basis, the Company recognized a non-cash deferred income tax recovery of below $0.1 million compared to no incomes taxes recognized in the same period last year, for the reasons discussed above.

Since March 28, 2020, the Company has not recognized deferred tax assets, in excess of those used to offset any deferred income tax expense in the period, influenced by operating losses and uncertainty surrounding future profitability introduced by the COVID-19 pandemic, among other factors. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carry-forwards, and other deferred tax assets which do not expire. The Company used a statutory income tax rate of 26.5% for the quarter and year-to-date, and 26.8% in the same periods 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 $45.1 million for the 13-week period ended January 1, 2022 ($1.62 net earnings per basic common share), compared to net earnings of $30.7 million ($1.11 net earnings per common share) for the same period last year, an improvement of $14.4 million. This was driven by sales growth, delivered through a successful product strategy and year-over-year recovery of the Company's retail channel.

On a fiscal year-to-date basis, the Company recognized net earnings of $26.7 million ($0.96 net earnings per common share), compared to a net loss of $18.4 million ($0.67 net loss per common share) in the same period last year, an improvement of $45.1 million. The net earnings position improved on a year-to-date basis for the same reasons discussed above, and benefited from a one-time payment from Starbucks on the renegotiation of its partnership with the Company.

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

During the 13-week period ended January 1, 2022, the Company entered into contracts with total notional amounts of C$55.5 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$22.5 million in the prior year. On a fiscal year-to-date basis, the Company entered into contracts with total notional amounts of C$142.4 million, compared to entering into contracts with total notional amounts of C$69.7 million in the same period last year.

As at January 1, 2022, the Company had remaining contracts in place representing total notional amounts of C$84.9 million and an unrealized net gain of $0.2 million, compared to total notional amounts of C$55.1 million and an unrealized net loss of $1.7 million as at December 26, 2020.

During the 13 and 39-week periods ended January 1, 2022, the Company had net losses (net of taxes) of $0.1 million and net gains (net of taxes) of $0.1 million, respectively, from the change in fair value of outstanding cash flow hedges, compared to net losses (net of taxes) of $3.2 million and $4.7 million in the same respective periods last year. The Company reclassified immaterial net gains (net of taxes), and net losses (net of taxes) of $1.6 million from settled contracts out of other comprehensive income to inventory and expenses during the 13 and 39-week periods ended January 1, 2022, compared to reclassified net gains (net of taxes) of $0.9 million in both of the same respective periods in the prior year.

During the 13-week period ended September 26, 2020, the Company terminated derivative instruments with one of its counterparties based on the counterparty's heightened credit risk 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 was recognized in earnings concurrently with the related hedge transactions in future periods. No derivative instruments were terminated in the 13 and 39-week periods ended January 1, 2022.

The Company also recognized other comprehensive income of $0.2 million and $0.3 million in the 13 and 39-week periods ended January 1, 2022 from foreign currency translation adjustments on consolidation of its foreign subsidiaries, compared to an other comprehensive loss of $0.6 million in both of the same respective periods in the prior year.

This resulted in other comprehensive income of $0.1 million and $2.1 million for the 13 and 39-week periods ended January 1, 2022, compared to other comprehensive losses of $4.6 million and $6.1 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. The impact of certain risks, as discussed in the "Risks and Uncertainties" section of the Company's fiscal 2021 MD&A, would have a disproportionate impact to the Company's financial performance should any such events occur during the holiday sales season.

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

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q3 Fiscal 2022**	Q2 Fiscal 2022	Q1 Fiscal 2022	Q4 Fiscal 2021	Q3 Fiscal 2021	Q2 Fiscal 2021	Q1 Fiscal 2021	Q4 Fiscal 2020
Revenue	430.7	238.8	172.1	199.0	365.4	205.3	135.1	178.1
Net earnings (loss)	45.1	3.5	(21.9)	(39.5)	30.7	(17.5)	(31.6)	(171.3)
Basic earnings (loss) per common share	**$1.62**	$0.13	$(0.79)	$(1.42)	$1.11	$(0.63)	$(1.15)	$(6.22)
Diluted earnings (loss) per common share	**$1.60**	$0.13	$(0.79)	$(1.42)	$1.09	$(0.63)	$(1.15)	$(6.22)

Overview of Consolidated Balance Sheets

Assets

As at January 1, 2022, total assets decreased $40.1 million to $916.5 million, compared to $956.6 million as at December 26, 2020. The change was driven by decreases in capital assets, cash and cash equivalents, and accounts receivable, partially offset by an increase in inventories. Capital assets decreased by $47.3 million as depreciation and amortization outpaced capital investments, a result of a lower level of real estate transactions and a more conservative capital asset investment program since the onset of the COVID-19 pandemic. Cash and cash equivalents decreased by $39.6 million, primarily due to the impact of a lower opening balance. Accounts receivable decreased by $8.2 million in the current year, primarily driven by amounts receivable from the CEWS programs that were not yet collected in the prior year. These changes were partially offset by an increase in inventories of $56.5 million, lapping over a period when the Company was measured in its inventory purchases in response to consumer spending patterns and in anticipation of government mandated lockdowns. This was furthered by the adverse impacts of Omicron on sales, as traffic in the retail store network dampened during key weeks of the holiday sales season.

On a fiscal year-to-date basis, total assets increased by $117.0 million to $916.5 million compared to $799.5 million as at April 3, 2021. The change was driven by increases in cash and cash equivalents and inventories, partially offset by decreases in capital assets, prepaid expenses, and accounts receivable. Cash and cash equivalents increased by $104.9 million, driven by the seasonal generation of cash from working capital, furthered by the year-to-date adjusted EBITDA. Inventories increased by $59.6 million, driven by the net effect of normalized inventory purchases and the adverse impact of Omicron to the Company's retail network. Capital assets decreased by $38.7 million, for the same reasons discussed above. Prepaid expenses decreased by $5.7 million due to the timing of rent payments. The decrease in accounts receivable of $4.8 million was primarily driven by the collection of the amounts receivable relating to external COVID-19 support in the prior year.

Liabilities

As at January 1, 2022, total liabilities decreased $31.4 million to $864.5 million, compared to $895.9 million as at December 26, 2020. This change was driven by a decrease in lease liabilities and accounts payable and accrued liabilities, partially offset by increases in unredeemed gift card liabilities and deferred revenue. The decrease in lease liabilities of $35.0 million reflects the impact of principal and interest repayments over the past year, and lease modifications recognized. Accounts payable and accrued liabilities decreased by $5.9 million, which is consistent with the year-over-year increase in inventories discussed above, and timing differences associated with trade payables. Unredeemed gift card liabilities increased $6.6 million, primarily driven by increased activations over the past twelve months, on the recovery of the Company's retail network. Deferred revenue increased by $5.3 million, driven by *plum* PLUS membership sign ups.

On a fiscal year-to-date basis, total liabilities increased by $87.6 million to $864.5 million, compared to $776.9 million as at April 3, 2021. The change was driven by an increase in accounts payable and accrued liabilities, unredeemed gift card liabilities and deferred revenue, partially offset by decreases in lease liabilities. The increase in accounts payable and accrued liabilities of $98.2 million and unredeemed gift card liabilities of $17.2 million are consistent with the seasonal nature of a retail business during the holiday season. Deferred revenue increased by $5.7 million driven by *plum* PLUS membership sign ups. The decrease of $30.9 million in lease liabilities reflects the impact of repayments and lease modifications, as discussed above.

Equity

Total equity as at January 1, 2022 decreased $8.8 million to $52.0 million, compared to $60.8 million as at December 26, 2020. The change in total equity was driven by a decrease in retained earnings (deficit) of $12.8 million due to net losses recognized in the fourth quarter of fiscal 2021 and the first quarter of fiscal 2022.

On a fiscal year-to-date basis, total equity increased $29.4 million to $52.0 million as at January 1, 2022, compared to $22.6 million as at April 3, 2021, primarily due to year-to-date net earnings recognized.

The weighted average number of common shares outstanding for the third quarter of fiscal 2022 was 27,783,278 compared to 27,697,527 for the same period last year. As at February 10, 2022, the number of outstanding common shares was 27,344,261 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 sales season.

The Company reported working capital of $83.4 million as at January 1, 2022, compared to $82.8 million as at December 26, 2020 and $46.1 million as at April 3, 2021. The moderate increase in working capital compared to the same period last year was driven by the discussed increase in inventories and decrease in accounts payable, partially offset by the decrease in cash and cash equivalents and increases in unredeemed gift card liabilities and deferred revenue.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $118.0 million for the 13-week period ended January 1, 2022 compared to an increase of $91.9 million in the same period last year. The change in the current period was driven by cash flows generated from operating activities of $137.7 million, partially offset by cash flows used for financing activities of $16.4 million and investing activities of $2.5 million.

On a fiscal year-to-date basis, cash and cash equivalents increased $104.9 million, compared to an increase of $109.0 million in the same period last year. The change in the current period was driven by cash flows generated from operating activities of $163.2 million, partially offset by cash flows used for financing activities and investing activities of $49.9 million and $8.2 million, respectively.

Cash Flows From Operating Activities

The Company generated cash flows of $137.7 million from operating activities in the 13-week period ended January 1, 2022 compared to generating cash flows of $108.2 million in the same period last year, an increase of $29.5 million. This was primarily driven by $71.3 million of cash generated from working capital, compared to $54.9 million in the prior year. The change in cash generated from working capital was driven by the impact increased sales had on inventory over a successful holiday sales season. Further, accounts receivable decreased compared to the prior year as the comparable balance included amounts from the CEWS program. The increase in cash flows from operating activities also benefited from the adjusted EBITDA earned in the quarter.

On a fiscal year-to-date basis, the Company generated cash flows from operating activities of $163.2 million compared to $162.5 million in the same period last year, an increase of $0.7 million. This was driven by the noted increase in year-to-date adjusted EBITDA, mostly offset by a decrease in cash generated from working capital. The change in cash generated from working capital was primarily the result of the discussed increase in inventory compared to the prior year, when the Company had deliberately looked to maximize liquidity while weathering the initial impacts of the COVID-19 pandemic.

Cash Flows Used for Investing Activities

The Company used cash flows of $2.5 million for investing activities in the 13-week period ended January 1, 2022 compared to using cash flows of $3.7 million in the same period last year, a change of $1.2 million. Since the onset of the COVID-19 pandemic, the Company decided to execute a smaller capital investment program, which has continued throughout fiscal 2022.

On a fiscal year-to-date basis, the Company used cash flows of $8.2 million for investing activities compared to using cash flows of $9.5 million in the same period last year, a change of $1.3 million.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Furniture, fixtures, equipment, and leasehold improvements, net	**0.2**	0.4	**1.0**	1.7
Intangible assets (digital application software and internal development costs)	**2.1**	2.4	**7.7**	6.6
Technology equipment	**0.3**	1.1	**0.6**	1.9
Total	**2.6**	3.9	**9.3**	10.2

Cash Flows Used for Financing Activities

The Company used cash flows of $16.4 million for financing activities in the 13-week period ended January 1, 2022 compared to using cash flows of $13.2 million in the same period last year, a change of $3.2 million. This was driven by higher repayments on the Company's IFRS 16 lease obligations, a direct impact of rent concessions recognized in the prior year.

On a fiscal year-to-date basis, the Company used cash flows for financing activities of $49.9 million, compared to $45.0 million used in the prior year, a change of $4.9 million. This change was driven by the reason 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 receivables and the majority of book products are purchased on trade terms with the right to return to suppliers at full credit. The Company's main sources of capital are cash flows generated from operations and cash and cash equivalents. Cash flows from operating activities could continue to be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, by the impact of social distancing policies and general public health sentiment on retail store traffic, and the Company's ability to safely fulfill orders through its online distribution network.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2022. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the COVID-19 pandemic, as discussed.

In the first quarter of fiscal 2022, the Company entered into a $25 million related party revolving line of credit to enhance its liquidity in response to uncertainty surrounding the pandemic's financial impacts. No advances were made on the non-interest bearing facility, which matured on February 1, 2022. The Company can seek to raise additional funding should a significant risk to liquidity arise, as it currently has no outstanding debt financing, and can reduce capital spending if necessary. However, the COVID-19 pandemic may create a number of additional risks to obtaining such funding, such as the ability to access capital at a reasonable cost. Also, a long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

For additional discussion surrounding risks and uncertainties related to COVID-19, refer to the "Risks and Uncertainties" section in the Company's fiscal 2021 Annual Report.

Accounting Policies

Accounting Standards Implemented in Fiscal 2022

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

In March 2021, the IASB extended the IFRS 16 practical expedient to cover rent concessions on payments due on or before June 30, 2022. The amendment becomes effective for annual reporting periods beginning on or after April 1, 2021, with earlier application permitted. The Company is applying the practical expedient and has accounted for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal was executed.

Accounting Standards Implemented in Fiscal 2021

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

On May 28, 2020, the International Accounting Standards Board ("IASB") issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The practical expedient applies to rent concessions on payments due on or before June 30, 2021. The Company is applying the practical expedient and has accounted for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal was executed.

New Accounting Pronouncements

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

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

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

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

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

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision

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

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

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

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 October 3, 2021 and ended on January 1, 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. However, the Company implemented a new payroll system in its second quarter, which required the redesign of process level transactional controls. Management performed testing over the system migration and has implemented internal controls around the processing of payroll and financial reporting to adequately mitigate the related risks of this change.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience, analysis, and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. The extent to which the impacts of the COVID-19 pandemic affect the factors described herein depend on future developments, which are highly uncertain and cannot be predicted. Whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

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

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

Reconciliations between adjusted EBITDA and 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 February 10, 2022.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at January 1, 2022**	As at December 26, 2020	As at April 3, 2021
ASSETS			
Current			
Cash and cash equivalents (note 5)	**189,872**	229,424	84,935
Accounts receivable	**18,223**	26,395	22,976
Inventories (note 6)	**274,682**	218,163	215,114
Prepaid expenses	**6,579**	7,937	12,278
Income taxes receivable	**–**	138	–
Derivative assets (note 7)	**197**	–	–
Other assets	**3,520**	3,202	2,120
Total current assets	**493,073**	485,259	337,423
Loan receivable (note 14)	**–**	446	–
Property, plant, and equipment, net	**66,520**	80,982	77,131
Right-of-use assets, net	**335,378**	366,104	361,864
Intangible assets, net	**19,353**	21,475	20,916
Equity investment, net	**2,156**	2,350	2,156
Total assets	**916,480**	956,616	799,490
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**244,424**	249,992	145,193
Unredeemed gift card liability	**75,269**	68,626	58,053
Provisions	**1,481**	2,185	2,365
Deferred revenue	**22,197**	16,880	16,486
Short-term lease liabilities (note 8)	**66,298**	63,022	67,603
Derivative liabilities (note 7)	**27**	1,716	1,622
Total current liabilities	**409,696**	402,421	291,322
Long-term accrued liabilities	**1,048**	1,371	2,090
Long-term provisions	**649**	696	827
Long-term lease liabilities (note 8)	**453,088**	491,378	482,671
Total liabilities	**864,481**	895,866	776,910
Equity			
Share capital (note 9)	**227,069**	226,986	226,986
Contributed surplus (note 10)	**14,338**	14,075	13,782
Retained deficit	**(189,954)**	(177,202)	(216,668)
Accumulated other comprehensive income (loss) (note 7)	**546**	(3,109)	(1,520)
Total equity	**51,999**	60,750	22,580
Total liabilities and equity	**916,480**	956,616	799,490

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 January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Revenue (note 11)	**430,666**	365,426	**841,560**	705,786
Cost of sales	**(252,427)**	(217,940)	**(482,883)**	(440,773)
Gross profit	**178,239**	147,486	**358,677**	265,013
Operating, selling, and other expenses (notes 8 and 11)	**(127,079)**	(110,843)	**(313,940)**	(264,948)
Operating profit	**51,160**	36,643	**44,737**	65
Net interest expense (note 8)	**(5,991)**	(5,921)	**(18,068)**	(18,466)
Earnings (loss) before income taxes	**45,169**	30,722	**26,669**	(18,401)
Income tax recovery (expense)	**(49)**	–	**45**	–
Net earnings (loss)	**45,120**	30,722	**26,714**	(18,401)
Other comprehensive income (loss) (note 7)				
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:				
Change in fair value of cash flow hedges	**(110)**	(3,151)	**116**	(4,654)
Reclassification of realized loss (gain)	**(22)**	(861)	**1,632**	(856)
Foreign currency translation adjustment	**245**	(597)	**318**	(597)
Other comprehensive income (loss)	**113**	(4,609)	**2,066**	(6,107)
Total comprehensive earnings (loss)	**45,233**	26,113	**28,780**	(24,508)
Net earnings (loss) per common share (note 12)				
Basic	**$1.62**	$1.11	**$0.96**	$(0.67)
Diluted	**$1.60**	$1.09	**$0.94**	$(0.67)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 28, 2020	226,986	12,822	(158,801)	2,998	84,005
Net loss for the period	–	–	(18,401)	–	(18,401)
Share-based compensation (note 10)	–	1,031	–	–	1,031
Directors' compensation (note 10)	–	222	–	–	222
Cash flow hedges (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
Balance, April 3, 2021	**226,986**	**13,782**	**(216,668)**	**(1,520)**	**22,580**
Net earnings for the period	**–**	**–**	**26,714**	**–**	**26,714**
Exercise of options (note 9)	**83**	**(22)**	**–**	**–**	**61**
Share-based compensation (note 10)	**–**	**578**	**–**	**–**	**578**
Cash flow hedges (note 7)	**–**	**–**	**–**	**1,748**	**1,748**
Foreign currency translation adjustment	**–**	**–**	**–**	**318**	**318**
Balance, January 1, 2022	**227,069**	**14,338**	**(189,954)**	**546**	**51,999**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
OPERATING ACTIVITIES				
Net earnings (loss)	**45,120**	30,722	**26,714**	(18,401)
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant, and equipment	**3,992**	4,129	**12,043**	13,020
Depreciation of right-of-use assets	**7,549**	10,183	**26,697**	31,728
Amortization of intangible assets	**2,785**	3,187	**9,269**	9,718
Loss on disposal of capital assets	**6**	–	**36**	247
Share-based compensation (note 10)	**(23)**	425	**578**	1,031
Directors' compensation recognized in contributed surplus (note 10)	**–**	74	**–**	222
Deferred income tax expense (recovery)	**49**	–	**(45)**	–
Rent concessions (note 8)	**–**	(462)	**–**	(4,141)
Other	**942**	(787)	**338**	(899)
Net change in non-cash working capital balances related to operations (note 13)	**71,310**	54,853	**69,538**	111,540
Interest expense (note 8)	**6,123**	6,154	**18,617**	19,107
Interest income	**(132)**	(233)	**(549)**	(641)
Cash flows from operating activities	**137,721**	108,245	**163,236**	162,531
INVESTING ACTIVITIES				
Net purchases of property, plant, and equipment	**(523)**	(1,543)	**(1,546)**	(3,528)
Addition of intangible assets	**(2,059)**	(2,385)	**(7,707)**	(6,635)
Proceeds from disposal of equity investment (note 14)	**–**	–	**516**	–
Interest received	**132**	233	**549**	641
Cash flows used for investing activities	**(2,450)**	(3,695)	**(8,188)**	(9,522)
FINANCING ACTIVITIES				
Repayment of principal on lease liabilities (note 8)	**(10,273)**	(7,052)	**(31,316)**	(25,890)
Interest paid (note 8)	**(6,123)**	(6,154)	**(18,617)**	(19,107)
Proceeds fron share issuances	**32**	–	**61**	–
Cash flows used for financing activities	**(16,364)**	(13,206)	**(49,872)**	(44,997)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(940)**	559	**(239)**	939
Net increase in cash and cash equivalents during the period	**117,967**	91,903	**104,937**	108,951
Cash and cash equivalents, beginning of period	**71,905**	137,521	**84,935**	120,473
Cash and cash equivalents, end of period	**189,872**	229,424	**189,872**	229,424

See accompanying notes

Notes to Consolidated Financial Statements

January 1, 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 2021 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's fiscal 2021 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended January 1, 2022 (including comparatives) were approved by the Board of Directors on February 10, 2022.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, significantly impacting the Company's operations during fiscal 2022, most notably by numerous temporary mandated store closures in its first quarter, and the adverse impact of mandated pandemic restrictions to retail traffic in the Company's store network during critical holiday selling weeks in the month of December.

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

The Company is in negotiations with its landlords regarding rent abatement to address the financial impacts of the most recent wave of COVID-19 related store closures.

Significant Judgments and Estimates

The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable 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 from unredeemed gift cards ("gift card breakage"); revenue from unredeemed *plum*® points ("*plum* breakage"); *plum*® PLUS membership fees ("*plum* PLUS revenue"); fair value of *plum*® points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlements; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs"), indicators of impairment and the valuation of property, plant and equipment, right-of-use assets, and other non-financial assets, including the respective valuation model assumptions (i.e., expected future cash flows from CGUs, discount rate); depreciation and amortization periods; lease recognition and measurement; and recognition and valuation of deferred tax assets; among others.

3. CHANGES IN ACCOUNTING POLICIES

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

Accounting Standards Implemented in Fiscal 2022

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

In March 2021, the IASB extended the IFRS 16 practical expedient to cover rent concessions on payments due on or before June 30, 2022. The amendment becomes effective for annual reporting periods beginning on or after April 1, 2021, with earlier application permitted. The Company is applying the practical expedient and has accounted for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal was executed.

Accounting Standards Implemented in Fiscal 2021

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

On May 28, 2020, the International Accounting Standards Board ("IASB") issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The practical expedient applies to rent concessions on payments due on or before June 30, 2021. The Company is applying the practical expedient and has accounted for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal was executed.

New Accounting Pronouncements

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

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

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

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

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

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision

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

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 January 1, 2022 and December 26, 2020 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 January 1, 2022**	As at December 26, 2020	As at April 3, 2021
Cash	**181,373**	229,006	84,516
Restricted cash	**8,471**	390	391
Cash equivalents	**28**	28	28
Cash and cash equivalents	**189,872**	229,424	84,935

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

6. INVENTORIES

The cost of inventories recognized as an expense during the 13 and 39-week periods ended January 1, 2022 was $241.5 million and $461.1 million, respectively (2020: 13 weeks – $206.8 million; 39 weeks – $409.8 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 January 1, 2022 were $0.6 million and $5.2 million, respectively (2020: 13 weeks – $0.4 million; 39 weeks – $5.0 million). The amount of inventory with net realizable value equal to cost was $2.3 million as at January 1, 2022 (December 26, 2020 – $3.2 million; April 3, 2021 – $5.4 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). Furthermore, the Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts 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 January 1, 2022, the Company entered into contracts with total notional amounts of C$55.5 million and C$142.4 million, respectively, to purchase U.S. dollar/Canadian dollar currency pair forwards (2020: 13 weeks – C$22.5 million; 39 weeks – C$69.7 million). As at January 1, 2022, the Company had remaining contracts in place representing total notional amounts of C$84.9 million (December 26, 2020 – C$55.1 million) at an average forward rate of 1.26 (December 26, 2020 – 1.32). These contracts extend over a period not exceeding 12 months.

During the 13-week period ended September 26, 2020, the Company terminated derivative instruments with one of its counterparties based on the counterparty's heightened credit risk 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 was recognized in earnings concurrently with the related hedge transactions in future periods. During the 13 and 39-week periods ended January 1, 2022 there were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted.

The total fair value of the contracts as at January 1, 2022 resulted in the recognition of a derivative asset of $0.2 million (December 26, 2020 – no derivative asset; April 3, 2021 – no derivative asset), and a derivative liability below $0.1 million (December 26, 2020 – $1.7 million; April 3, 2021 – $1.6 million).

During the 13 and 39-week periods ended January 1, 2022, the Company had net losses (net of taxes) of $0.1 million and net gains (net of taxes) of $0.1 million, respectively, from the change in fair value of outstanding cash flow hedges (2020: 13 weeks – net losses (net of taxes) of $3.2 million; 39 weeks – net losses (net of taxes) of $4.7 million). During the same respective periods, the Company reclassified immaterial net gains (net of taxes) and net losses (net of taxes) of $1.6 million from settled contracts out of other comprehensive income to inventory and expenses (2020: 13 weeks – net gains (net of taxes) of $0.9 million; 39 weeks – net gains (net of taxes) of $0.9 million).

This resulted in other comprehensive income of $0.1 million and $2.1 million for the 13 and 39-week periods ended January 1, 2022 (2020: 13 weeks – other comprehensive loss of $4.6 million; 39 weeks – other comprehensive loss of $6.1 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, as well as any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 13 and 39-week periods ended January 1, 2022 and December 26, 2020.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Balance, beginning of period	**519,935**	549,465	**550,274**	568,617
Lease modifications included in the scope of IFRS 16	**8,747**	12,449	**(686)**	15,814
Accretion of lease liabilities	**6,123**	6,154	**18,617**	19,107
Repayment of interest and principal on lease liabilities	**(16,396)**	(13,206)	**(49,933)**	(44,997)
Rent concessions	–	(462)	–	(4,141)
Foreign currency adjustment	**977**	–	**1,114**	–
Balance, end of period	**519,386**	554,400	**519,386**	554,400

For the 13 and 39-week periods ended January 1, 2022, no contracts met the criteria for recognition under the IFRS 16 practical expedient for COVID-19 rent concessions (2020: 13 weeks – $0.5 million; 39 weeks – $4.1 million).

9. SHARE CAPITAL

Share capital consists of the following:

	39-week period ended January 1, 2022		39-week period ended December 26, 2020		53-week period ended April 3, 2021	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,273,961**	**226,986**	27,273,961	226,986	27,273,961	226,986
Issued during the period						
Options exercised	**60,300**	**83**	–	–	–	–
Balance, end of period	**27,334,261**	**227,069**	27,273,961	226,986	27,273,961	226,986

10. SHARE-BASED COMPENSATION

As at January 1, 2022, 3,123,250 stock options were outstanding with exercise prices ranging from $1.00 to $18.40. Of these outstanding stock options, 1,626,150 were exercisable at a weighted average exercise price of $8.99. As at December 26, 2020, there were 2,552,950 stock options outstanding, 1,167,825 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 and 39-week periods ended January 1, 2022, the pre-forfeiture value of options granted was $0.4 million and $1.7 million, respectively (2020: 13 weeks – less than $0.1 million; 39 weeks – $0.3 million).

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

	13-week period ended January 1, 2022	13-week period ended December 26, 2020
Black-Scholes option pricing assumptions		
Risk-free interest rate	**1.0%**	0.3%
Expected volatility	**77.8%**	72.6%
Expected time until exercise	**2.5 years**	2.5 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**24.7%**	25.3%

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 January 1, 2022 is $3.2 million (December 26, 2020 – $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 Earnings (Loss) and Comprehensive Earnings (Loss).

All Directors' compensation during the 13 and 39-week periods ended January 1, 2022 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2020 – all legacy DSUs, with the exception of cash awards of less than $0.1 million.)

The Company issued 18,702 cash-settled DSUs with a value of $0.1 million during the 13-week period ended January 1, 2022 (2020 – 21,760 legacy DSUs with a value of $0.1 million). During the 39-week period ended January 1, 2022, the Company issued 54,877 cash-settled DSUs with a value of $0.2 million (2020 – 146,071 legacy DSUs with a value of $0.2 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 January 1, 2022 is $0.1 million (December 26, 2020 – nil). During the periods ended January 1, 2022 and December 26, 2020, 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 January 1, 2022
Black-Scholes option pricing assumptions	
Risk-free interest rate	**1.0%**
Expected volatility	**72.7%**
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.

This includes a one-time payment of $17.0 million from Starbucks Coffee Canada, Inc ("Starbucks"), received during the 39-week period ended January 1, 2022, on the renegotiation of its partnership with the Company.

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Print[1]	**208,022**	192,221	**442,610**	402,997
General merchandise[2]	**212,034**	163,642	**356,331**	285,110
Other[3]	**10,610**	9,563	**42,619**	17,679
Total	**430,666**	365,426	**841,560**	705,786

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

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

3 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Superstores[1]	**257,160**	196,077	**474,867**	351,952
Small format stores[1]	**40,934**	34,297	**73,054**	57,304
Online (including store kiosks)	**121,962**	125,489	**251,020**	278,851
Other[2]	**10,610**	9,563	**42,619**	17,679
Total	**430,666**	365,426	**841,560**	705,786

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

2 Includes corporate sales, *plum* PLUS revenue, *plum* breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	**13-week period ended January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Wages, salaries, and bonuses	**61,774**	52,816	**144,681**	108,131
Short-term benefits expense	**5,655**	4,590	**15,224**	12,250
Termination benefits expense	**758**	1,603	**1,774**	4,014
Retirement benefits expense	**457**	428	**1,375**	1,296
Share-based compensation	**(23)**	425	**578**	1,031
Total employee benefits expense	**68,621**	59,862	**163,632**	126,722

The Company did not qualify for payroll subsidies from the CEWS program for the 13-week period ended January 1, 2022, and recognized net subsidies of $2.3 million in the 39-week period ended January 1, 2022 (2020: 13 weeks – $3.2 million; 39 weeks – $22.9 million). These subsidies were recorded as a reduction in the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses. In the 13-week period ended January 1, 2022, the Company recognized a reserve of $1.5 million related to contingencies associated with its fiscal 2022 CEWS filings.

Termination benefits arise when the Company terminates certain employment agreements.

The Company received no rent subsidies from the CERS program for the 13-week period ended January 1, 2022, and recognized $2.9 million in the 39-week period ended January 1, 2022 (2020: 13 weeks – $0.3 million; 39 weeks – $0.3 million).

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 adjustments to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the 13 and 39-week periods ended January 1, 2022 and December 26, 2020 are as follows:

	13-week period ended January 1, 2022	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Weighted average number of common shares outstanding, basic	**27,783,278**	27,697,527	**27,760,156**	27,644,551
Effect of dilutive securities – stock options	**497,531**	409,631	**520,536**	–
Weighted average number of common shares outstanding, diluted	**28,280,809**	28,107,158	**28,280,692**	27,644,551

For the 13-week and 39-week periods ended January 1, 2022, 2,458,550 stock options were anti-dilutive (2020: 13 weeks and 39 weeks – 1,737,950 stock options were anti-dilutive). Only the dilutive stock options were included in 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 January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Accounts receivable	**1,016**	(14,373)	**4,753**	(18,755)
Inventories	**42,776**	34,307	**(59,568)**	23,649
Prepaid expenses	**9,268**	1,306	**5,699**	(1,875)
Other assets	**(2,449)**	(1,434)	**(1,400)**	(882)
Accounts payable and accrued liabilities (current and long-term)	**(3,650)**	10,532	**98,189**	85,874
Unredeemed gift card liability	**22,699**	22,076	**17,216**	16,953
Provisions (current and long-term)	**(709)**	(13)	**(1,062)**	378
Deferred revenue	**2,359**	2,452	**5,711**	6,198
Net change in non-cash working capital balances	**71,310**	54,853	**69,538**	111,540

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 January 1, 2022**	13-week period ended December 26, 2020	**39-week period ended January 1, 2022**	39-week period ended December 26, 2020
Wages, salaries, and bonus	**2,377**	1,386	**5,808**	3,689
Short-term benefits expense	**203**	25	**332**	73
Retirement benefits expense	**17**	16	**47**	48
Share-based compensation	**(55)**	132	**371**	598
Directors' compensation	**47**	74	**114**	222
Total remuneration	**2,589**	1,633	**6,672**	4,630

During the 39-week period ended January 1, 2022, the Chief Executive Officer resumed their salary after electing to forgo compensation at the onset of the the global pandemic. The Company's executive team also filled its vacancy for the role of Chief Commercial Officer and introduced the role of Chief Digital Officer.

Transactions with Shareholders

During the third quarter of fiscal 2022, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. During the 13 and 39-week periods ended January 1, 2022, the Company paid $0.1 million and $0.3 million, respectively, for these transactions (2020: 13 weeks – below $0.1 million; 39 weeks – $0.2 million). As at January 1, 2022, Indigo had a nominal amount payable to these companies under standard payment terms (December 26, 2020 – nominal amount payable). These transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

During the first quarter of fiscal 2022, the Company entered into a secured revolving credit facility of $25 million with a company controlled by Mr. Gerald W. Schwartz. The non-interest bearing facility was issued on favourable commercial terms to Indigo. The facility was put in place in response to uncertainty surrounding the pandemic's financial impacts, with its purpose to allow the Company to manage the seasonal nature of cash flows in the most effective manner. No advances were made on the non-interest bearing facility, which matured on February 1, 2022.

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 January 1, 2022, and during the comparable periods in the prior year.

On October 22, 2019, the Company sold its equity investment in Calendar Club and Calendar Club of Canada Ltd. (the general partner of the partnership) to Paris Southern Lights Inc. (a minority partner in the partnership).

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Toronto Stock Exchange

Trading Symbol

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