Indigo

ANNUAL REPORT FOR THE 52-WEEK PERIOD ENDED APRIL 1, 2023

our mission

to inspire reading and simplify our customers' journeys to live with intention

Indigo operates under the following banners:
Indigo Books & Music, *Chapters*, *Coles*, *Indigospirit*, and *indigo.ca*.
The Company employs approximately 5,000 people across the country.

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report of the ceo

To Our Shareholders

I am pleased to share Indigo's fiscal 2023 financial results, which reflect a rollercoaster year in the face of significant external pressures. We delivered another year of $1B annual revenue but were challenged by diminishing consumer confidence due to double-digit inflation, and an unprecedented ransomware attack. Despite these challenges, we have remained steadfast in our commitment to delivering exceptional value to our customers and driving sustainable growth.

The macro-economic climate and ransomware attack withstanding, we are proud to have delivered merchandise sales growth. Merchandise sales, the total of retail and online revenue and excluding other revenues grew $4.6M or 0.5% over the prior year.

On the Ransomware Attack

In early February of 2023, we experienced a ransomware attack that disrupted internal operations and caused service disruptions to both of our sales channels and drove a material detrimental impact to our sales and profitability. Our ecommerce channels were temporarily shut down, with the website being fully restored after four weeks. Our retail stores were unable to process payments for roughly three days and we also experienced other operational challenges that limited our ability to fulfil demand.

I am proud of our team's swift response and perseverance throughout the ransomware attack. Our amazing recovery is a testament to the unwavering dedication and hard work of our talented team across the country. Through all of this, Indigo customers continued to show their loyalty to our brand. We learned that anyone can be vulnerable to attacks of this nature, and in the face of this extraordinary challenge, we did not waver. I believe we have come out of this incident stronger, together.

Our Channels

We saw customers continue to rebound to our retail channel, achieving growth above pre-pandemic levels in Q2 and delivering a record-breaking Boxing week. Our strong retail performance led to a sales channel mix shift, which along with the cybersecurity incident drove the year-over-year decline in our online sales channel. Up to January, our ecommerce channels saw sales growth of 71% to pre-pandemic levels in fiscal 2020. We continue to see the importance of our online channels as a lever for expansion and for investment. In addition, our *plum*® PLUS loyalty program has increasingly become a strategic vehicle for the Company to meaningfully engage with its most loyal customers.

We often hear from our customers that Indigo is their "happy place", and we strive to maintain this legacy through all touchpoints in the customer journey.

We have continued to evolve our store experience to respond to shifts in consumer behaviour with the reimagined Indigo 'Store of the Future.' This year, we opened our first iteration of the modernized 'Store of the Future' concept at CF Rideau Centre in Ottawa. This store keeps books at its core whilst highlighting our lifestyle assortment and creates a community atmosphere by introducing both centralized and dispersed seating, and playable kids fixtures. In addition, we also launched a new small format concept in Medicine Hat, Alberta, which to date, is showing significant double-digit growth on its predecessor.

We have had an ecommerce business for over 20 years, and our platforms are designed to deliver a seamless omnichannel experience. Over the last year, we continued to invest in our online channel technology systems, re-platforming our marketing technology stack and launching the first phase of our new digital platform.

We are excited to continue to drive momentum in fiscal 2024 with the full launch of the new digital platform in the late summer and our new flagship store at The Well in Toronto, in September.

Books Remain at Our Core

Books are the heartbeat of our organization and remain the central inspiration for all other products we offer. While we continue to focus on maintaining our already strong Canadian market share, we also believe there is available growth in that market.

Over the past year, we have continued to lean into the global phenomenon "#Booktok"—a hugely popular subcommunity on the TikTok platform—to capitalize on a resurgence of interest in books and engage a new generation of readers to fuel future upside. We launched a TikTok x Indigo Book Club, and have evolved our social media, customer communications, and in-store merchandising to speak directly to the "#Booktok" community, to great success.

We continue to offer customers access to over 12 million books online and tens of thousands of titles in-store, with localized assortments that reflect the communities where we operate. We offer distinct value to customers through thoughtful, human curation, reliable inventory management, and consistent and exceptional customer service.

Our Brand Platform

We have set the foundations for an exciting future with the introduction of our new brand platform: *life, on purpose*™, *la vie, décidément*™. We celebrated Indigo's 25th anniversary this past fall with the launch of this new platform via a national marketing campaign celebrating iconic Canadian authors and culture shapers, highlighting how they live their lives with intention. As part of the celebration, we created an exclusive capsule collection of books and general merchandise products, and hosted special events and experiences all month long to inspire customers to connect with what matters most to them.

Sustainability

Sustainability underpins all the work we do at Indigo, and we remain committed to moving quickly and with determination towards a sustainable future. In 2023, we released our first annual Climate Report to demonstrate the progress we've made towards our goals and commitments. Indigo's net-zero journey focuses on minimizing the operational impacts from its facilities, waste, and logistics. We also aim to reduce its emissions through sourcing and advocacy initiatives that will encourage suppliers and publishers to prioritize sustainable materials and responsible production practices.

Indigo Love of Reading Foundation

We are committed to continuing to address the literacy crisis in Canada and educational inequality with the Indigo Love of Reading Foundation. With the support of Indigo, its customers, employees, and suppliers, the Foundation has committed over $35.0 million to more than one million students across Canada since 2004. The Foundation is dedicated to giving back to communities in need, while at the same time raising awareness about the critical importance of children's literacy in Canada.

Final Thoughts

With our strong brand platform with books at our core, commitment to innovation, and a talented workforce, I believe we are well-positioned for the future.

management's responsibility for financial reporting

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

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

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

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

Peter Ruis
Chief Executive Officer

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

management's discussion and analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at June 27, 2023 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week periods ended April 1, 2023 and April 2, 2022. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein.

This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes contained in the attached Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

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, home, wellness, fashion, paper, baby and kids 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 87 superstores (2022— 88) under the *Indigo* and *Chapters* names, as well as 84 small format stores (2022— 85) 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*.

Throughout fiscal 2023, the Company employed an average of approximately 5,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of $1,057.7 million. The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ").

The Company supports a separate registered charity called the Indigo Love of Reading Foundation (the "Foundation"), which is committed to addressing educational inequality, and more specifically the literacy crisis in Canada. The Foundation provides resources including new books and learning materials, training, and year-round curation support to high-needs elementary schools and children across the country, through donations from Indigo, its customers, its suppliers, and its employees.

Ransomware Attack Update

On February 8, 2023, Indigo was the victim of a ransomware attack, resulting in internal operational disruptions and service disruptions to both the ecommerce and retail channels. Upon discovery, the Company immediately engaged third-party experts to assist Indigo in investigating and resolving the situation. As part of the remediation work, Indigo proactively shut down some of its systems to prevent data from being improperly accessed and has been working with third-party experts to strengthen its cybersecurity practices, enhance data security measures and review existing controls. Through the investigation, Indigo determined that its network was illegally accessed by criminals who deployed ransomware software known as "LockBit".

As a result of the attack, the Company's digital platforms were temporarily unavailable for customers. On February 17, Indigo launched a temporary website, which first acted as a browsable-only online home, and on February 22 was updated to offer the sale of select books. This platform was used until March 8, when Indigo restored its full website, including its traditional online product assortment. In store, the most significant impact was to Indigo's electronic payment processing capabilities, which were shut down for approximately three days.

Indigo's investigation of the ransomware attack did not find any indication that customer data was improperly accessed, although the employee data of some employees was found to have been affected. Law enforcement was notified of the issue, and current and former employees were notified that their personal information may have been affected. Indigo retained the assistance of one of Canada's leading consumer reporting agencies to offer two years of credit monitoring and identity theft protection services at no cost to the impacted employees. The Company continues to work closely with Canadian and U.S. law enforcement in response to the attack.

The complete and long-term financial impact of the ransomware attack cannot be reasonably estimated at this time; however, it has had a material impact on the Company's fiscal 2023 financial results. The Company maintains cyber insurance coverage, and is in the process of working with its insurer to make claims under the policy. However, due to the complexity of cyber insurance coverage, there will be a time lag between the business interruption and response and remediation costs, and the recovery of insurance proceeds, the extent of which management cannot reasonably predict. Furthermore, management cannot predict the future costs expected to be incurred in fiscal 2024 to complete remediation, as well as the impact of any residual changes to consumer behaviour as a result of the incident.

Statement on COVID-19

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

Since the pandemic began, the Company has experienced rolling closures and capacity restrictions to its retail network, as directed by local governments and public health authorities. This notably included Canada-wide closures that negatively impacted the Company's retail operations. All stores remained open throughout fiscal 2023, while 93 retail locations were closed for part of the first quarter in the prior year. The Company also implemented mandated government capacity restrictions in the third and fourth quarters of the prior year, which adversely affected retail traffic in the Company's store network, particularly during critical holiday selling weeks in the month of December.

In fiscal 2023, the Company recognized $1.0 million of external COVID-19 support, all in the form of occupancy expense abatement. In the prior year, the Company recognized $12.9 million of external COVID-19 support; $7.7 million of occupancy expense abatement, $2.3 million from the Canada Emergency Wage Subsidy ("CEWS") and $2.9 million from the Canada Emergency Rent Subsidy ("CERS"). The CEWS and CERS programs ended in fiscal 2022. The Company did not qualify for COVID-19 subsidies under any newly introduced programs in fiscal 2023.

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

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

General Development of the Business

Since 1997, Indigo has been its customers' self-declared "happy place"— a next-generation cultural concept store, where worlds are illuminated with stories, ideas, and things that bring joy.

Indigo's mission is to inspire reading and to simplify its customers' journey to live with intention. Anchored by books and complimented by a curated general merchandise assortment, the Company endeavors to empower its customers to actively identify what they value most and to support them in living in alignment with those values; in living a *life, on purpose*™ lifestyle. Through thoughtful curation of products that fill hearts and homes, delivering content that encourages reflection and inspiration, and by building connection in communities served, Indigo seeks to bring tremendous value to the Canadian retail landscape.

As this landscape has shifted over the past twenty-five years, Indigo continues to evolve in its differentiated and rich omnichannel shopping experience, aligning to the changing needs of its customers, employees, and the communities it serves. The Company's top priorities over the past three years and key strategies moving forward include refining its assortment of thoughtfully-curated merchandise, developing Indigo's store of the future, reimagining Indigo's digital presence, generating profitable growth, enhancing customer connections, and fostering high performing teams.

In September 2023, Indigo celebrated its 25th anniversary with the launch of its new brand platform: *life, on purpose*™, *la vie, décidément*™. The national marketing campaign celebrated iconic Canadian authors and culture shapers, highlighting how they live their lives with intention. As part of the celebration, Indigo created an exclusive capsule collection of books and general merchandise products, and hosted special events and experiences all month long to inspire customers to connect with what matters most to them.

Refine Merchandise Assortment

Indigo connects people to discovery, ideas and inspiration. Products are made to move you and shape you. To fill hearts, and homes. They are designed for real life and made for real people.

Books are at Indigo's core, offering customers access to over 12 million books online and tens of thousands of titles in-store, with localized assortments that reflect the communities in which the Company operates. Indigo has focused on maintaining strong Canadian market share against value retailers. This has been achieved through thoughtful curation and reliable inventory management, strong brand awareness, extraordinary convenience, consistent customer engagement and a constant focus on providing exceptional customer service.

Indigo's print business is complemented by a curated general merchandise assortment comprised of coveted proprietary and third-party brands. Over the past three years, the Company successfully expanded its proprietary brand portfolio, which now includes OUI STUDIO™ and OUI™ Design (collectively "OUI"), LOVE & LORE®, CARTA™, Auria®, NÓTA™, Wonder Co.™, Mini Maison™ and The Littlest™. The merchandise is developed in-house by the Company's design, global sourcing and merchandising teams, and the brands extend across the Home, Wellness, Fashion, Paper, Kids and Baby categories. The focus is to continue developing merchandise with compelling product margin rates that differentiate Indigo's assortment and build brand affinity.

The Company believes that its merchandising strategy, of both coveted proprietary and third-party brands, is a pillar to driving customer demand. In fiscal 2022, Indigo partnered with Canadian technology start-up, Convictional Commerce Inc., to accelerate its growth of third-party inventory by refining the Company's dropship seller experience, delivering curation at scale on its digital platforms. In fiscal 2023, management continued enhancing its merchandising practices and onboarding toolset to accelerate the growth of Indigo's general merchandise assortment. This included further expansion in categories including tech, plants, gourmet foods, arts and crafts, record and fan shops, tween, wellness and baby. New third-party brands were introduced in all product categories. Management drove an omnichannel merchandising strategy to employ a holistic view of selection and allocation through the optimization of existing retail space and allocating more space to faster turning merchandise, and by broadening and growing product breadth and depth by leveraging inventory management models such as dropship and consignment.

Indigo is continually focused on maintaining a coveted merchandise assortment while upholding strong merchandising practices, including effective promotional strategies and elevated buying techniques, all of which drive customer demand, lift full-priced sell through, and ultimately generate profitable growth.

Develop Indigo's Store of the Future

Indigo retail stores reflect the Company's transformation from a bookstore to a next-generation cultural concept store; a physical and digital meeting place inspired by and filled with books, music, art, ideas, and beautifully designed lifestyle products, all aimed at simplifying its customers' journey to *Living with Intention*.

The distinction between physical and digital retail has evolved, and customers expect to have a seamless experience with the Indigo brand, regardless of channel. Recognizing this, the Company continues to focus on providing an omnichannel shopping experience with exceptional customer service, flexible access to inventory and evolving digital innovation. In fiscal 2021, the Company invested further in its express pick-up solution, which allows customers to order online and pick up in store within the same day.

In fiscal 2022, the Company began reimagining the function of its café spaces, with a focus on a market-by-market, and sometimes store-by-store approach, to offer customers regional relevance and support local businesses. The Company renegotiated its partnership with Starbucks Coffee Canada, Inc. ("Starbucks"), and 36 cafés continue to operate as Starbucks within Indigo stores, while the remaining cafés located in the Company's superstores are being reimagined under the evolving Indigo brand retail experience. The Company announced a partnership with Good Earth Cafes Ltd. to bring their Coffeehouse experience to select locations across communities in Canada, and five Good Earth Cafes Ltd. were opened in fiscal 2023. One Tunnel Espresso café and one Second Cup café were also opened within Indigo locations in the year. The focus of Indigo's reimagined café offering is on exceptional customer experience, delicious food and drink, and partnering with like-minded, values-based organizations across the country.

The Company is constantly assessing how the physical retail landscape evolves with fundamental shifts in consumer behaviour, to reimagine Indigo's 'Store of the Future.' In fiscal 2023, the Company opened its first iteration of a modernized 'Store of the Future' concept at the CF Rideau Centre in Ottawa. This store keeps books at its core, highlights lifestyle assortment, and creates a community atmosphere by introducing both centralized and dispersed seating, as well as playable kids' fixtures. The Company plans to open another new concept store in fiscal 2024 in downtown Toronto at The Well, one of the largest retail, corporate and residential developments in Canada. The Company looks to continue reimagining the role and experience of its physical store locations.

Reimagine Indigo's Digital Presence

Indigo has created an omnichannel shopping experience, which provides customers a seamlessly integrated physical and digital next-generation cultural concept store. Today, Indigo's online channel offers customers access to over 12 million book titles, along with an enhanced assortment of general merchandise, all designed to help customers connect to the things that matter most to them.

Over the past several years, the Company has built a strong social media presence across Facebook, Instagram, LinkedIn, Pinterest, Twitter, and TikTok with over 585,000 followers on Facebook and over 440,000 on Instagram. Some locations in the Company's retail network have their own community social profiles. These platforms further enhance customer engagement by building connection within communities, and with Indigo as a whole.

In fiscal 2021, Indigo kicked off a comprehensive modernization strategy with the objective of evolving its digital technology stack, dropship program, and end-to-end site experience. This strategic endeavour encompasses a number of mid-term initiatives to drive the Company's competitiveness in response to the digital acceleration experienced globally during the pandemic. Indigo's Buy Online Pick Up In-Store (BOPIS) experience was optimized to unlock further omnichannel functionality and roll out a seamless experience of product pick-up in as little as two hours across the Canadian retail store network.

This strategy was furthered in fiscal 2022, when the Company embarked on a journey to fully re-design a connected shopping experience and modernize its ecommerce technology. This included Indigo entering into an agreement with Salesforce, Inc. for its market-leading commerce cloud solution to function as a critical pillar of Indigo's new digital architecture, offering personalized and tailored digital experiences. These efforts continued in fiscal 2023 and are expected to continue in fiscal 2024, as the Company focuses on building the evolved *indigo.ca* site experience. The modernized website will deliver an innovative and agile platform that will allow the Company to further capitalize on the potential of the ecommerce opportunity unlocked by accelerated adoption during the pandemic.

Generate Profitable Growth

Indigo is focused on the constant evolution of its business model, to generate profitable growth and ongoing value for investors.

The macro-economic environment has created many challenges over the past several years, which have impacted consumer behaviour and traffic patterns in retail locations, increased costs and caused volatility in the retail industry as a whole. Indigo has weathered each of these challenges by maintaining brand strength, constantly evaluating its current operating model, and focusing on driving efficiency. In the current year, the Company focused on prudent expense management, including cost-reduction initiatives within its head office operations and streamlining supply chain functions.

Moving into fiscal 2024, the Company expects to implement a new best-in-class retail labour model, built in partnership with external advisors, to create efficiencies in store operations and adapt to the changes in the physical retail landscape. Indigo is focusing on investments that drive high levels of return for the business to optimize capital spending. The Company will continue focusing on creating operational efficiencies that will increase free cash flow generation and strengthen profitability.

The Company is evaluating entering into a revolving line of credit facility to finance the working capital and operational needs of the Company. As of the date hereof, no agreements have been entered into in respect thereof.

On June 27, 2023, the Company received a binding commitment with respect to a revolving line of credit facility with Trilogy Retail Holdings Inc. ("Trilogy"), as lender (the "Credit Facility"). Trilogy is controlled by Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo. The Credit Facility is for an aggregate principal amount of up to $45.0 million and, with the consent of Trilogy, the amount may be increased by up to $10.0 million. The Credit Facility, which matures on December 31, 2023, has an interest rate of the Royal Bank of Canada prime rate +1%, and will be used to finance the seasonal working capital and operational needs of the Company. It will be issued on reasonable commercial terms, and will not be convertible, directly or indirectly, into equity or voting securities. The Credit Facility will be subject to the terms and conditions of the credit agreement anticipated to be entered into between the Company and Trilogy on or before July 31, 2023.

Enhance Customer Connection

At Indigo, customers are the heroes of the brand's story. With stores in communities from coast to coast, its customers are as diverse as the landscape. Embedding a deep customer understanding throughout the organization is essential to the brand.

The Company has spent the past several years reimagining its customer loyalty programs with a focus on engaging in a two-way relationship with customers, connecting more deeply and communicating with purpose. The Company has a two-tiered loyalty program: *plum*®, a free points-based tier; and *plum*® PLUS, an annual fee-based tier. The foundation of these programs is to drive further customer value, while providing the Company with analytics to equip teams in making customer-centric business decisions.

Optimizing the Company's *plum*® loyalty program continues to be a key focus of the business to enhance the overall brand experience. *plum*® is Indigo's community, designed to inspire and motivate members to embrace a *life, on purpose*™ lifestyle, by unlocking access to experiences and benefits that extend beyond their shopping journey. The Company aims to engage members with richer and more relevant products, content, experiences and offers.

The *plum*® PLUS program has grown beyond the milestone of 600,000 members and is increasingly becoming a strategic vehicle for the Company to meaningfully engage with its most loyal customers. As an annual fee-based program, *plum*® PLUS offers free shipping, member discounts, and exclusive offers as incremental benefits to the redeemable points offered on almost all products purchased. This membership tier has delivered on engaging Indigo's best customers, in addition to driving frequency and a meaningful lift in average transaction values. The success of this program continues to deepen the Company's understanding of its customers and to deliver a unique and personalized member experience at key moments. In fiscal 2023, the Company continued to build its customer-first culture by strengthening its capabilities to personalize each member touch point, providing a rich omnichannel shopping experience.

Foster High Performing Teams

A key priority at Indigo has always been its people. With a focus on fostering engagement and high performance, Indigo strives for an environment that encourages employees to bring their best selves to work. The intention is to make diversity, equity and inclusion embedded in how employees work every day, to create a culture where everyone feels like they can be their authentic self, and communities feel represented and welcomed with joy.

The Company's ambition is to be the best rewarding retail employer, not only in pay, but in a holistic view of the employment relationship that includes a sense of purpose, meaningful relationships, benefits, and flexible work opportunities. This Company-wide initiative focuses on driving engagement, and operational excellence, while removing inefficiency from the Company's work processes. By empowering teams with focused roles and responsibilities, and fostering a culture that supports a true overall quality of life, Indigo seeks to enable productivity, maintain stabilization of the workforce, and drive overall employee engagement. This work involves partnerships across all areas of the Company and is expected to continue to evolve over the next several years.

The success of this strategy is evidenced by ongoing record-high employee engagement. In the past three years, the Company has maintained high employment engagement scores, increasing from 87% in 2021 to 90% in 2023. Indigo was recognized as a leading employer by Forbes "Canada's Best Employers" in 2022 and again in 2023, and has been recognized in the Globe and Mail's Report on Business magazine's Women Lead Here awards. The resilience and hard work of the Indigo teams has allowed the business to successfully respond to the ever-evolving challenges of the macro-economic environment over the past several years.

Results of Operations

The following three tables summarize selected financial and operational information for the Company. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the consolidated financial statements for the 52-week period ended April 1, 2023, 52-week period ended April 2, 2022 and 53-week period ended April 3, 2021.

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

(millions of Canadian dollars)	52-week period ended April 1, 2023	% Revenue	52-week period ended April 2, 2022	% Revenue
Revenue	1,057.7	100.0	1,062.3	100.0
Cost of sales	(641.5)	60.7	(619.2)	58.3
Cost of operations	(262.8)	24.8	(245.7)	23.1
Selling, general and administrative expenses	(106.9)	10.1	(104.3)	9.8
Depreciation of right-of-use assets	(41.4)	3.9	(36.1)	3.4
Finance charges related to leases	(25.6)	2.4	(24.5)	2.3
Adjusted EBITDA[1]	(20.5)	1.9	32.5	3.1
Depreciation of property, plant and equipment	(15.7)	1.5	(16.0)	1.5
Amortization of intangible assets	(9.9)	0.9	(11.9)	1.1
Loss on disposal of capital assets	(0.1)	0.0	0.0	0.0
Net interest income	1.4	0.1	0.8	0.1
Impairment loss from equity investment	–	–	(2.0)	0.2
Gain on sale of equity investment	0.2	0.0	–	–
Expenses from ransomware attack	(5.2)	0.5	–	–
Earnings (loss) before income taxes	(49.8)	4.7	3.3	0.3

1 Earnings before interest, taxes, depreciation, amortization, asset disposals, income from equity investment, impairment, and certain non-recurring or unusual amounts, 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".

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

(millions of Canadian dollars, except per share data)	52-week period ended April 1, 2023	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Revenue			
Superstores	653.0	595.5	439.8
Small format stores	108.8	93.1	72.6
Online	253.1	321.7	370.0
Other	42.8	52.0	22.3
	1,057.7	1,062.3	904.7
Earnings (loss) before income taxes	(49.8)	3.3	(56.9)
Income tax recovery (expense)	0.2	–	(1.0)
Net earnings (loss)	(49.6)	3.3	(57.9)
Total assets	738.1	809.4	799.5
Lease liabilities (including current portion)	497.4	517.2	550.3
Working capital	4.1	58.3	46.1
Basic earnings (loss) per common share	$(1.78)	$0.12	$(2.09)
Diluted earnings (loss) per common share	$(1.78)	$0.12	$(2.09)

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

	52-week period ended April 1, 2023	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Stores Opened			
Superstores	1	–	–
Small format stores	–	–	1
	1	–	1
Stores Rebranded, Relocated, or Renovated			
Superstores	1	9	–
Small format stores	1	–	–
	2	9	–
Stores Closed			
Superstores	2	–	–
Small format stores	1	4	20
	3	4	20
Number of Stores Open at Year-End			
Superstores	87	88	88
Small format stores	84	85	89
	171	173	177
Selling Square Footage at Year-End (in thousands)			
Superstores	2,044	1,941	1,941
Small format stores	235	222	231
	2,279	2,163	2,172

Revenue

Total consolidated revenue for the 52-week period ended April 1, 2023 decreased $4.6 million or 0.4% to $1,057.7 million from $1,062.3 million for the 52-week period ended April 2, 2022.

Merchandise sales, the total of retail and online sales and excluding other revenues, increased by $4.6 million or 0.5% to $1,014.9 million for the year ended April 1, 2023, compared to $1,010.3 million in the prior year. This growth was generated despite the headwinds of a challenging macro-economic environment. Sales momentum halted in the fourth quarter, after the Company became victim to a ransomware attack which shut down ecommerce platforms for several weeks, and limited payment processing in the retail network for approximately three days. This had a material impact on sales in the fourth quarter and in the fiscal year.

The Company's general merchandise business generated growth of 5.8% compared to the prior year. This was fueled by double-digit growth in the paper, baby and wellness product categories. Paper was positively impacted by the easing of COVID-19 restrictions, allowing for the continuation of celebrations and the lift of giftable paper products including cards, gift wrap and party accessories. Both baby and wellness were product categories in which the Company focused on expanding assortment, seeing the growth potential in the Canadian market. The print business declined by 3.7%, negatively impacted by system limitations during the ransomware attack which affected the ability to replenish inventory.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $73.2 million or 10.6% to $761.8 million for the 52-week period ended April 1, 2023 compared to $688.6 million in the prior year. Customers' desire to shop in-store fueled a rebounding retail channel, which in the Company's second quarter drove sales above pre-pandemic levels and in the third quarter delivered a record-breaking Boxing week.[1] However, the Company also felt the downward pressures of a challenging macro-economic environment which affected consumer behaviour, along with the impacts of the ransomware attack, which limited store operations including the inability to process credit card payment for approximately three days. Stores were open without any COVID-19 restrictions throughout the fiscal year, compared to the prior year when the retail channel was challenged by closures and capacity restrictions.

Online revenue decreased by $68.6 million or 21.3% to $253.1 million for the 52-week period ended April 1, 2023 compared to $321.7 million in the prior year. This decline was partially a result of a shift in channel demand, as the retail network recovered from COVID-19 rolling store closures and capacity restrictions in the prior year. Compared to fiscal 2020 pre-pandemic levels, the online channel sustained year-to-date sales growth of 71% through January, demonstrating its importance as a lever of expansion and investment for the Company. In February, the online sales channel was temporarily shut down by the ransomware attack, which had a material impact on online sales in the fourth quarter. The full website was restored after four weeks.

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"), e-book revenue sharing with Rakuten Kobo Inc. ("Kobo") and other non-merchandise revenue. Revenue from other sources decreased $9.2 million or 17.7% to $42.8 million for the 52-week period ended April 1, 2023 compared to $52.0 million in the prior year. In the prior year, the Company benefited from a one-time payment of $17.0 million from the renegotiation of its partnership with Starbucks. In the current year, the Company benefited from higher *plum*® PLUS revenue form the growth of the membership program and elevated breakage income related to a change in redemption patterns.

1 Historical data referencing 2013 onwards

Revenue by channel is highlighted below:

(millions of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022	% increase/ (decrease)
Superstores[1]	653.0	595.5	9.7
Small format stores[1]	108.8	93.1	16.9
Online (including store kiosks)	253.1	321.7	(21.3)
Other[2]	42.8	52.0	(17.6)
Total	1,057.7	1,062.3	(0.4)

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

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

Revenue by product line is as follows:

	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Print[1]	51.9%	53.6%
General merchandise[2]	44.1%	41.5%
Other[3]	4.0%	4.9%
Total	100.0%	100.0%

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

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

3 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, subleases revenue, Kobo revenue share 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 by $22.3 million to $641.5 million for the 52-week period ended April 1, 2023, compared to $619.2 million in the prior year. As a percent of total revenue, cost of sales increased to 60.7% compared to 58.3% in the prior year.

Excluding the impact of online shipping costs, cost of sales increased by $28.1 million to $588.9 million for the 52-week period ended April 1, 2023, compared to $560.8 million in the prior year. As a percent of total revenue, cost of sales excluding the impact of online shipping costs increased to 55.7% compared to 52.8% in the prior year. Cost of sales was negatively impacted by the current macro-economic environment, including the increased cost of inventory and a greater penetration of promotions compared to peak pandemic, when full-priced sell-through was elevated. This was furthered by higher international freight costs, which compared to the prior year were an incremental $5.5 million and $20.3 million compared to pre-pandemic fiscal 2020 levels. As seen industry-wide, the Company was challenged by higher shrink levels in the current year, costing an additional $10.3 million. In the prior year, the Company also benefited from a one-time payment of $17.0 million from the renegotiation of its partnership with Starbucks, which had a positive impact on cost of sales as a percent of total revenue. The increase in cost of sales was partially offset by a higher proportion of sales from the retail channel, which typically has a higher margin profile, and a one-time adjustment related to the settlement of aged payables in the current year.

Online shipping costs decreased by $5.8 million to $52.6 million for the 52-week period ended April 1, 2023, compared to $58.4 million in the prior year. While the increased cost of fuel negatively impacted the variable rate of shipping, the absolute cost decreased compared to the prior year, driven by the discussed reduction in online sales.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $17.1 million to $262.8 million for the 52-week period ended April 1, 2023, compared to $245.7 million in the prior year. As a percent of total revenue, cost of operations increased to 24.8% compared to 23.1% in the prior year. The increase in cost of operations was primarily driven by reduced external support received in the current year. The Company received $1.2 million of funding recognized against cost of operations, from COVID-19 occupancy expense abatement and the Canada Book Fund, administered by the Minister of Canadian Heritage ("Canada Book Fund"). In the prior year, the Company recognized a total of $10.8 million of external COVID-19 support through CEWS, CERS, and occupancy expense abatement. Cost of operations was further impacted by increased labour costs incurred to support technological advances to the online sales channel.

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. Selling, general and administrative expenses increased $2.6 million to $106.9 million for the 52-week period ended April 1, 2023, compared to $104.3 million in the prior year. As a percent of total revenue, selling, general and administrative expenses increased to 10.1% compared to 9.8% in the prior year. This was driven by increased strategic spending associated with the modernization of the Company's ecommerce technology, furthered by additional marketing initiatives after a softer marketing program in the prior year. These additional costs were partially offset by a reduction in incentive compensation.

Lease Charges

Lease charges associated with IFRS 16 include the depreciation of the right-of-use assets and finance charges associated with the lease liabilities. Lease charges increased by $6.4 million to $67.0 million for the 52-week period ended April 1, 2023, compared to $60.6 million in the prior year. Lease modifications recognized in the prior year resulted in a lower amortization balance, which drove the year-over-year variance. The current period amortization is more reflective of a normalized expense.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, asset disposals, share of loss from equity investment, impairment, and certain non-recurring or unusual amounts, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. The impact of events that are non-recurring or unusual in nature, that the Company believes are not otherwise reflective of ongoing operations and which would make comparisons of underlying financial performance between periods difficult, are excluded from the calculation of Adjusted EBITDA.

Adjusted EBITDA decreased by $53.0 million to a loss of $20.5 million for the 52-week period ended April 1, 2023, compared to earnings of $32.5 million in the prior year. Adjusted EBITDA, as a percent of total revenue, was a loss of 1.9%, compared to earnings of 3.1% in the prior year. The ransomware attack caused an interruption to the Company's operations, including the temporary shut down of ecommerce platforms. The full website was restored after four weeks. While the complete financial impact cannot be reasonably estimated at this time, it had a material detrimental impact on fiscal 2023 Adjusted EBITDA. Adjusted EBITDA was also adversely impacted by the headwinds of the current macro-economic environment. The Company incurred $5.5 million of incremental international freight, along with increased cost of inventories and a greater penetration of promotions compared to peak pandemic, when full-priced sell-through was elevated. As seen industry-wide, the Company was also challenged by higher shrink levels, which totaled an incremental $10.3 million in the current year. Additional costs were incurred on enabling infrastructure to support a modernized ecommerce technology, as well as additional amortization of the Company's right-of-use assets, impacted by lease modifications recognized in the prior year. This was furthered by a reduction in total government grants and COVID-19 support payments, which were $4.0 million in the current year, compared to $12.9 million in the prior year.

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 52-week period ended April 1, 2023 decreased $2.3 million to $25.6 million compared to $27.9 million in the prior year. The decrease was primarily driven by reduced intangible asset amortization, a result of intangible assets reaching full amortization in the prior year. The majority of intangible asset additions in the current year are not ready for use, and therefore are not yet being amortized.

Capital expenditures in fiscal 2023 totaled $27.4 million compared to $15.4 million in the prior year, and were primarily to support the Company's strategic plans for ecommerce growth. Capital expenditures included $24.0 million for digital application software and internal development costs, $2.3 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances, and $1.1 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, increased $0.6 million to $1.4 million for the 52-week period ended April 1, 2023, compared to $0.8 million in the prior year, a result of increased interest rates. The Company nets interest income against interest expense.

Equity Investment

The Company historically used the equity method to account for its share of earnings and losses from its equity investment in Unplug Meditation, LLC ("Unplug"). During fiscal 2023, the Company sold its investment for proceeds of $0.3 million, resulting in a gain on disposition of $0.2 million.

Ransomware Attack Costs

As at April 1, 2023, the Company had incurred $5.2 million of costs associated with the ransomware attack, including breach response legal and professional fees, data remediation costs, hardware and software restoration and incremental inventory scrap, amongst others.

In addition, the ransomware attack resulted in internal operational disruptions and service disruptions in both sales channels. The Company's ecommerce platform was heavily impacted, with the full website being restored after four weeks. Furthermore, the retail network was unable to process electronic payments for approximately three days. The financial impact associated with this business interruption cannot be reasonably estimated at this time; however, it has had a material impact on the Company's fiscal 2023 financial results.

Indigo maintains cyber insurance coverage, and is in the process of working with its insurer to make claims under the policy. However, due to the complexity of cyber insurance coverage, there will be a time lag between the business interruption and response and remediation costs, and the recovery of insurance proceeds, the extent of which management cannot reasonably predict.

Income Taxes

The Company recognized a non-cash deferred income tax recovery of $0.2 million for the 52-week period ended April 1, 2023, compared to recognizing no income taxes in the prior year. Income taxes recognized were impacted by the movement in cash flow hedges. Since fiscal 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 taxable profit being available against which they can be utilized. In the prior year, the Company recognized no income tax expense on net earnings due to the offsetting deferred income tax recovery from the re-recognition of deferred tax assets.

The Company's effective tax rate was 0.4%, compared to 0% in the prior year.

Net Earnings (Loss)

The Company recognized a net loss of $49.6 million for the 52-week period ended April 1, 2023 ($1.78 net loss per common share), compared to net earnings of $3.3 million ($0.12 net earnings per common share) in the prior year, a change of $52.9 million. The ransomware attack caused an interruption to the Company's operations, including the temporary shut down of ecommerce platforms. The full website was restored after four weeks. While the complete financial impact cannot be reasonably estimated at this time, it had a material detrimental impact on the fiscal 2023 net loss position. Furthermore, the headwinds of the current macro-economic environment impacted consumer behaviour and adversely affected costs. The Company incurred incremental international freight, increased cost of inventories and a greater penetration of promotions compared to peak pandemic, when full-priced sell-through was elevated. The Company was also challenged by higher shrink levels, consistent with current industry trends, and incurred additional costs associated with its ecommerce modernization. The change in net earnings (loss) was furthered by reduced government grants and COVID-19 support payments received in the current year.

Other Comprehensive Income (Loss)

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

As at April 1, 2023, the Company had an unrealized net gain of $0.7 million and remaining contracts in place representing total notional amounts of C$14.1 million, compared to an unrealized net loss of $0.6 million and total notional amounts of C$67.1 million as at April 2, 2022.

For the 52-week period ended April 1, 2023, the Company recognized other comprehensive income of $1.1 million from the Company's cash flow hedges, compared to other comprehensive income of $1.0 million in the prior year.

The Company also recognized an other comprehensive loss of $0.2 million from foreign currency translation adjustments on consolidation of its foreign subsidiaries for the fiscal year ended April 1, 2023, compared to an other comprehensive gain of below $0.1 million in the prior year.

These resulted in total other comprehensive income of $0.9 million for the 52-week period ended April 1, 2023, compared to total other comprehensive income of $1.0 million in the prior year.

Seasonality and Fourth Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and earnings (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the holiday 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 this 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							
	Q4 Fiscal 2023	Q3 Fiscal 2023	Q2 Fiscal 2023	Q1 Fiscal 2023	Q4 Fiscal 2022	Q3 Fiscal 2022	Q2 Fiscal 2022	Q1 Fiscal 2022
(millions of Canadian dollars, except per share data)	April 1, 2023	December 31, 2022	October 1, 2022	July 2, 2022	April 2, 2022	January 1, 2022	October 2, 2021	July 3, 2021
Revenue	**194.2**	422.7	236.2	204.6	220.7	430.7	238.8	172.1
Net earnings (loss)	**(42.5)**	34.3	(15.9)	(25.4)	(23.4)	45.1	3.5	(21.9)
Basic earnings (loss) per common share	**$(1.53)**	$1.23	$(0.57)	$(0.91)	$(0.84)	$1.62	$0.13	$(0.79)
Diluted earnings (loss) per common share	**$(1.53)**	$1.22	$(0.57)	$(0.91)	$(0.84)	$1.60	$0.13	$(0.79)

For the 13-week period ended April 1, 2023, total consolidated revenue decreased by $26.5 million or 12.0% to $194.2 million compared to $220.7 million for the 13-week period ended April 2, 2022, primarily a result of the ransomware attack which led to internal operational disruptions and service disruptions in both sales channels. The Company's ecommerce platform was heavily impacted, with the full website being restored after four weeks. Furthermore, the retail network was unable to process electronic payments for approximately three days.

The Company recognized a net loss of $42.5 million for the 13-week period ended April 1, 2023, ($1.53 basic net loss per common share), compared to a net loss of $23.4 million ($0.84 basic net loss per common share) in the same period in the prior year. The change in the current year was driven by the impacts of the ransomware attack. This included significant business interruption that had a material impact on sales, along with an additional $5.2 million of expenses incurred, including breach response and remediation costs.

Overview of Consolidated Balance Sheets

Assets

As at April 1, 2023, total assets decreased $71.3 million to $738.1 million, compared to $809.4 million as at April 2, 2022. This was primarily driven by decreases in inventories, cash and cash equivalents, net capital assets, and prepaid expenses. Inventories decreased by $29.8 million; while the Company was strategically rightsizing inventory to further align with evolving customer demand, the ransomware attack also caused system limitations which impacted replenishment abilities. Cash and cash equivalents decreased by $21.4 million, which was primarily driven by the net loss recognized over the year. This was partially offset by increased cash generated from working capital, positively impacted by the reduction in inventories on hand. Cash was further impacted by higher capital investment in digital infrastructure. Net capital assets decreased by $13.2 million, as the above-mentioned capital investment and year-to-date lease modifications were outpaced by total depreciation and amortization. Prepaid expenses decreased by $6.7 million due to the timing of rent payments, impacted by differing year end dates.

Liabilities

As at April 1, 2023, total liabilities decreased $23.4 million to $758.1 million, compared to $781.5 million as at April 2, 2022. This was primarily driven by net decreases in lease liabilities and accounts payable and accrued liabilities, partially offset by an increase in unredeemed gift card liabilities. Lease liabilities had a net decrease of $19.7 million, which reflects the impact of principal and interest repayments over the past year, less lease modifications recognized. Accounts payable and accrued liabilities decreased by $8.3 million, driven primarily by the above-noted slowdown in inventory purchasing in the fourth quarter of fiscal 2023 compared to the prior year. This was partially offset by an increase of $4.2 million in unredeemed gift card liabilities, impacted by higher activations over the past year on the recovery of the Company's retail network, as well as system limitations on gift card usage in the fourth quarter after the ransomware attack.

Equity

Total equity at April 1, 2023 decreased $47.8 million to a deficit of $20.0 million, compared to equity of $27.8 million as at April 2, 2022, driven primarily by the net loss of $49.6 million recognized over the past four quarters.

The weighted average number of common shares outstanding for fiscal 2023 was 27,814,444 compared to 27,771,387 in the prior year. As at April 1, 2023, the number of outstanding common shares was 27,352,711 with a book value of $227.1 million. As at June 27, 2023, the number of outstanding common shares was 27,497,711.

Working Capital and Leverage

The Company reported working capital of $4.1 million as at April 1, 2023, compared to $58.3 million as at April 2, 2022. The decrease in working capital compared to the prior year was primarily driven by the discussed decrease in inventories and cash and cash equivalents, partially offset by a decrease in accounts payable and accrued liabilities.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $21.4 million for the 52-week period ended April 1, 2023 compared to an increase of $1.5 million in the prior year. The decrease in cash in the period was driven by cash flows used in financing activities and investing activities of $71.8 million and $25.6 million, respectively. This was partially offset by cash flows generated from operating activities of $77.8 million. For more information, refer to the "Consolidated Statements of Cash Flows" in the Company's consolidated financial statements.

Cash Flows From Operating Activities

The Company generated cash flows of $77.8 million from operating activities in the 52-week period ended April 1, 2023 compared to generating cash flows of $81.3 million in the prior year, a change of $3.5 million. This was primarily a result of the $53.0 million decrease in Adjusted EBITDA recognized in the current year, mostly offset by an increase in cash generated from working capital of $46.5 million. The increase in cash generated from working capital was impacted by the reduction in inventory levels, furthered by lower prepaid expenses due to the timing of year end dates. This was partially offset by the associated reduction in accounts payable.

Cash Flows Used for Investing Activities

The Company used cash flows of $25.6 million for investing activities in the 52-week period ended April 1, 2023 compared to $13.5 million in the prior year, a change of $12.1 million. This was driven by investment in the Company's digital ecosystem as it embarked to fully re-design a connected shopping experience and modernize its ecommerce technology. For more discussion on Indigo's digital investments, refer to the

"General Development of the Business", specifically under "Reimagine Indigo's Digital Presence" in this MD&A. Cash was used for capital projects as follows:

(millions of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Furniture, fixtures, equipment, and leasehold improvements, net	2.3	1.9
Intangible assets (digital application software and internal development costs)	24.0	12.1
Technology equipment	1.1	1.4
Total	**27.4**	15.4

Cash Flows Used for Financing Activities

The Company used cash flows of $71.8 million for financing activities in the 52-week period ended April 1, 2023 compared to using cash flows of $66.1 million in the prior year, a change of $5.7 million. This was driven by higher repayments on the Company's IFRS 16 lease obligations.

Liquidity and Capital Resources

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

The contractual maturities of the Company's current and long-term liabilities as at April 1, 2023 are as follows:

(millions of Canadian dollars)	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Total obligations	240.9	115.4	129.0	185.7	671.0

This is inclusive of the Company's IFRS 16 lease liabilities, which represent $497.4 million of the obligations listed above.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, it is expected that the Company's current cash position and future cash flows generated from operations and financing activities will be sufficient to meet its working capital requirements for fiscal 2024. The Credit Facility will also supplement the Company's liquidity. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the impacts of the ransomware attack and the current macro-economic environment, amongst others.

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

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of the consolidated financial statements in conformity with IFRS requires the Company to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. The Company also evaluates its judgments and estimates on an ongoing basis. Methods for determining all material judgments and estimates are consistent with those used in prior periods, except as noted. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates. The critical accounting judgments and estimates and significant accounting policies of the Company are described in notes 3 and 4 of the consolidated financial statements.

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

Use of judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

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

Use of estimates

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

Impairment

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

Inventories

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

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

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

Leases

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

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

Revenue

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

Indigo's *plum*® loyalty program, which includes the *plum*® and *plum*® PLUS membership tiers, allows customers to earn points on their purchases. The allocation of transaction price to the *plum*® loyalty obligation, which is the estimated reward tier value of a future redemption net of points management expects will go unredeemed ("*plum*® breakage"), is based on the relative stand-alone selling price. The Company continues to monitor trends in redemption patterns (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed.

Share-based payments

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

New Accounting Pronouncements

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

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

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

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

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

Risk Factors

The Company is exposed to a variety of risk factors and has identified the principal risks inherent in its business. The relative severity of these principal risks is impacted by the external environment and the Company's business strategies and, therefore, will vary from time to time.

The Company cautions that the following discussion of risk factors that may affect future results is not exhaustive. The Company's performance may also be affected by other specific risks that may be highlighted from time to time in other public filings of the Company, which are available on the Canadian securities regulatory authorities' website at *www.sedar.com*. When relying upon forward-looking information to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties, assumptions, global macro-economic and geopolitical events (including war, acts of terrorism and civil disorder), industry, and Company-specific factors that may adversely affect future results. The Company assumes no obligation to update or revise previously filed public documents to reflect new events or circumstances, except as required by law.

Public Health Crises

The Company could be negatively affected by the adverse impacts of any outbreaks of epidemics, pandemics, or other public health crises, including the ongoing impacts of the COVID-19 pandemic.

As a result of the COVID-19 pandemic, to protect the health and safety of its customers and employees, the Company complied with government-mandated rolling store closures and store capacity restrictions, which negatively impacted retail revenues. Changes in consumer behaviour and preferences, global supply chain disruptions, and fluctuating commodity prices, amongst other impacts, further affected the Company's operations and financial results.

Any future health crises, along with any ongoing impacts of the COVID-19 pandemic, may directly or indirectly materially and adversely affect the Company's operations and financial results in future periods. The full extent depends on developments which cannot be predicted. Investors should also refer to the discussion in the "Statement on COVID-19".

Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions. Economic conditions, both on a global scale and in particular markets, may have significant effects on consumer confidence and spending. The inflationary pressures present in the Canadian economy as at April 1, 2023 and anticipated to continue in fiscal 2024 could curtail consumer spending. A decline in consumer spending, especially during the third quarter holiday sales season, could have an adverse effect on the Company's financial condition. Pandemics, such as the COVID-19 pandemic, and the related governmental, private sector and individual consumer responses could reduce retail traffic and consumer spending, result in temporary or permanent closures of stores, offices, and factories, and could disrupt the material flow of goods, which could have an adverse effect on the Company's financial situation. Other variables, such as unanticipated increases in merchandise costs, higher labour costs, increases in shipping rates or interruptions in shipping service, foreign exchange fluctuations, political uncertainty, disruptions in international trade, the impact of natural disasters, geopolitical events or acts of terrorism, or higher interest rates, inflation, or unemployment rates, could also unfavourably impact the Company's financial performance.

Competition

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

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

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

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

Consumer Trends

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

Strategic Initiatives and Growth Strategy

The retail industry is constantly changing and management is committed to the Company's continued growth and success. The Company will continue to change and modify its strategy based on its economic environment however, there can be no assurances that Indigo's strategy will be successful.

The Company may be subject to growth-related risks as it undertakes its strategic initiatives, such as expansion into new markets or the launch of new initiatives. Undertaking such initiatives could place a significant strain on the Company's management, operations, technical performance, financial resources, and internal financial control and reporting functions, as well as the inability to realize said initiatives. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with growth may have a material adverse effect on the Company's financial condition, results of operations and prospects.

Corporate Reputation

The Company's corporate reputation and those of its brands are very important to Indigo's success and competitive position. The Company's reputation and, consequently, its brand, may be negatively affected by the various risk factors described herein, some of which may be outside of Indigo's control.

The use of social media platforms and other forms of Internet-based communications that provide individuals with access to a broad audience of consumers and other interested persons is omnipresent. The availability and impact of information on social media platforms is virtually immediate and many social media platforms publish user-generated content without filters or independent verification as to the accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is effectively without limit and may negatively impact the Company's reputation and future-oriented prospects.

The Company's business could be adversely affected by social reform movements seeking to change business practices by bringing public awareness to issues through store protests and/or social media campaigns. Ineffective action or perceived inaction pertaining to the Company's industry and business could adversely affect its reputation.

Other adverse events may also damage the Company's reputation and brands at the corporate or retail level. Should negative factors materialize and diminish Indigo's brand equity, there could be a material adverse effect on the Company's operations and financial condition and performance.

Culture

Failing to build and maintain a unique values-based culture that promotes trust, collaboration, dignity, mutual respect, entrepreneurial spirit, accountability, engagement, operational excellence, and high performance amongst and by the Company's employees and leadership team may negatively affect its operational performance, adversely impact its ability to satisfactorily execute on strategic initiatives and adversely damage the Company's reputation. The strength of Indigo's brand is sustained, in part, through its culture.

Key Business Relationships

Indigo relies heavily on its print and general merchandise suppliers to deliver merchandise within agreed upon timelines and on acceptable commercial terms. These suppliers are impacted by, amongst other things, increases in input costs, availability of raw materials, inflation, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, geopolitical risks, trade restrictions, border restrictions, tariffs, currency exchange rates and transport costs. Collectively and individually, these factors are beyond the Company's control and a failure to maintain competitive terms and strong relationships with these suppliers, or the absence of key suppliers, may affect the Company's ability to compete in the marketplace.

A significant portion of the Company's general merchandise assortment is purchased from overseas suppliers. As such, events causing disruptions to imports, changes in trade restrictions and tariffs, or currency fluctuations could negatively impact the Company's revenues and margins. The Company does not enter into long-term contracts with overseas suppliers and generally operates without assurances of continued supply or stable commercial terms. To date, the Company has not experienced any significant difficulty in sourcing merchandise and considers its supply base to be adequate. The Company has continued to experience fluctuations in timelines and costs associated with overseas shipments as the global supply chain continues to recover from the effects of COVID-19 and the Russia-Ukraine conflict.

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

Indigo is in the process of modernizing its digital operations, including a complete redevelopment of the Company's website and omnichannel technology. This digital transformation effort has resulted in a greater dependence on third-party technology and cloud computing providers to ensure that critical business and consumer facing systems are functional and secure. Disruptions to the reliability of these systems could lead to a negative impact on the Company's performance and reputation.

Indigo relies on third-party logistics partners to fulfill sales transactions with its customers in a dependable and timely manner for its ecommerce business. Changes in geographic coverage, service levels, capacity levels, financial stability and labour disruptions at the Company's logistics partners, may adversely affect Indigo's business and financial results.

Workplace Wellness, Health and Safety

The failure of the Company to create a healthy and safe workplace for all employees, to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could result in employee injuries, productivity loss, and liabilities to the Company. To reduce the risk of workplace incidents, the Company has comprehensive health and safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements. In addition, the Company continues to monitor the status of the COVID-19 pandemic.

Remote Work

The Company has adopted a hybrid work model for most of its head office roles which allows for some portion of work to be conducted remotely from employees' homes or other locations. Remote work introduces certain additional risk factors that may negatively impact the Company's ability to perform its operations efficiently, securely and without interruptions, including increased cybersecurity threats; increased dependence on telecommunication links such as Internet access in employees' homes; decreased efficiency due to the change in equipment and network speeds used for data processing and use; and the timely dissemination and exchange of information in a remote workforce environment.

Talent

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

The Company may be negatively impacted by the loss of the services of key personnel and challenges in connection with management team and Board transitions, including but not limited to the changes discussed under "Indigo Team" in the Annual Information Form. Any of such events could have a material adverse effect on the Company.

Labour Relations

The majority of the Company's employees are not subject to a collective bargaining agreement. Unions may attempt to organize and represent the Company's employees, and if a significant number of employees were to become unionized, the resulting collective agreements could have adverse consequences for the operational or financial conditions at the impacted location(s). Additionally, the maintenance of a productive, engaged and efficient labour environment cannot be assured and a failure to maintain such an environment, or a failure to successfully negotiate collective agreements, could lead to labour disputes, disruptions or work stoppages involving some or all of the Company's employees which could adversely affect Indigo's reputation, disrupt its operations, reduce its revenues and/or increase its costs related to resolving such a dispute.

Inventory Management

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

The Company engages with a growing number of vendors on dropship fulfillment terms, mitigating the inventory management risk and offering the Company greater flexibility to respond to changes in customer demand. The Company also works with general merchandise vendors to negotiate promotional and markdown support to aid in the successful exit of non-returnable products. The Company monitors the impact of customer trends on inventory turnover and obsolescence, but inappropriate inventory levels could negatively impact the Company's revenue and financial performance.

Product Quality and Product Safety

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

These product quality and product safety risks could result in harm to the Company's customers and could expose Indigo to product liability claims, damage the Company's reputation, and lead to product recalls. Liabilities and costs related to product quality and product safety may also have a negative impact on the Company's revenue and financial performance. The Company has policies and controls in place to manage these risks, including maintaining liability insurance and offering product safety guidance to third-party manufacturers, but there can be no assurance that these measures can fully eliminate the negative impact of such risks.

Ethical Sourcing

Products that are sourced from factories in countries for which there is a high level of public scrutiny pertaining to working conditions and labour regulations introduce a heightened level of reputational and brand risk. In order to mitigate these risks, the Company works with its suppliers to ensure that products are sourced, manufactured, and transported according to the standards outlined in its Vendor Code of Business Conduct. This Code is based on the United Nations Universal Declaration of Human Rights, International Labor Organization Conventions and Recommendations and other internationally accepted standards.

Supply Chain

The Company is dependent on three distribution facilities, including two co-located at the same leased facility in Brampton, Ontario, to fulfill inventory requirements for its retail network, and the majority of online channel sales. If one or more of the Company's distribution facilities becomes inoperable, capacity is exceeded or if operations are disrupted, Indigo's business, financial condition and operating results could be negatively affected. The Company depends on the orderly operation of the receiving and distribution processes, which rely on adherence to shipping schedules, sufficiently planned capacity, and the timely performance of services by third-party logistics providers, among other effective distribution centre management practices.

A substantial portion of the Company's product assortment is sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery. Accordingly, the Company is exposed to potential supply chain disruptions due to foreign supplier failures, pandemics, extreme weather events, geopolitical risk (including the downstream impacts of the Russia-Ukraine conflict), raw material and component shortages, labour disruption or insufficient capacity at ports, and risks of delays or loss of inventory in transit. Rising costs associated with inbound freight and courier services used by the Company to last mile ship may also adversely impact the business and its ability to operate profitably.

Liquidity Risk

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

However, cash flows from operating activities could be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to: adverse economic conditions, impacts of the ransomware attack, general public health sentiments on retail store traffic and associated changes in consumer preferences. Operating cash flows could also be negatively impacted by increased expenses, and although the Company has the ability to alter its cost structure in response to such an event, the effectiveness and timing of those actions cannot be guaranteed.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, it is expected that the Company's current cash position, future cash flows generated from operations and the Credit Facility will be sufficient to meet its working capital requirements for fiscal 2024. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by the risks discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity and reduce capital spending if necessary. However, the current macro-economic environment continues to introduce additional risks to debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company. A long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

Receivable Credit Risk

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

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

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

Foreign Exchange Risk

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to Indigo's Canadian customers is set in Canadian dollars. The Company also has a U.S. retail store that earns revenue in U.S. dollars and incurs U.S. dollar expenses. The Company maintains a hedging program to mitigate foreign exchange risk, but there can be no assurance that this program can fully eliminate the negative impact of such risk.

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which impacts the interest earned on Indigo's cash and cash equivalents.

The Company's indebtedness under the Credit Facility will expose the Company to additional risks associated with fluctuating interest rates. Required interest payments will create financial risks including the need to divert funds identified for other purposes which could create additional cash demands and impact the Company's liquidity position. If the Company cannot generate sufficient cash flow from operations to service outstanding debt, it may be required to obtain the necessary funds through refinancing, disposing of assets, reducing expenditures, issuing equity, or other means. The current market volatility may adversely impact interest rates in the future, as well as the Company's ability to borrow under the Credit Facility.

Indigo Credit Risk

The Company is exposed to operational risk from the adverse impact of fluctuations in its own credit rating, which may hinder its ability to negotiate commercially favourable purchase terms and debt facilities.

The Company's indebtedness under the Credit Facility may fluctuate, up to the principal amount thereof, at the Company's discretion. The credit agreement in respect of the Credit Facility will contain financial covenants. The Company's ability to make additional borrowings under the Credit Facility will depend upon compliance with these and other covenants. The ability to comply with these covenants and requirements may be affected by events beyond the Company's control. Failure to comply with obligations under the Credit Facility could result in an event of default thereunder. A default, if not cured or waived, would prohibit the Company from obtaining further loans under the Credit Facility and permit the lender thereunder to accelerate payment of the loans. In addition, the lender would have the right to proceed against the collateral securing the Credit Facility, which will consist of substantially all of the Company's assets. If the debt is accelerated, the Company cannot be certain that it will have funds available to pay the accelerated debt or that it will have the ability to refinance the accelerated debt on favorable terms, or at all. If the Company could not repay or refinance the accelerated debt, it could be insolvent and could seek to file for bankruptcy protection. Any such default, acceleration, or insolvency would likely have a material and adverse effect on the business.

The degree of leverage held by the Company could negatively impact the Company's operations, through increased cash expense associated with interest, exposing the Company to debt capital market risk including interest rate risks, limiting the ability to obtain other forms of financing, and restricting flexibility of discretion over the operations of the business, amongst others.

Commodity Price Risk

The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, in its commitments to invest in information technology and digital infrastructure, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company.

Specifically, the Company's financial performance can be affected by fluctuations in the commodity cost of oil, because of its exposure to fuel costs in its supply chain. The wholesale price of gasoline is subject to global oil supply and demand conditions, domestic and foreign political policy, commodity speculation, global economic conditions, and potential supply chain disruptions from natural and human-caused disasters, geopolitical events like the Russia-Ukraine conflict, or health events such as pandemics.

As the Company invests in strengthening its information technology and digital infrastructure, it is increasingly exposed to global supply shortages for semiconductors. Semiconductors are an essential component of electronic devices and they are made of pure elements. Supply and production capacity continues to lag behind historical levels after being adversely impacted by the COVID-19 pandemic and the geopolitical unrest stemming from Russia, the world's largest producer of palladium and high-grade nickel, potentially further escalating supply chain disruptions.

Real Estate

The Company leases all of its retail locations, distribution centres and its head offices, and is thus susceptible to the risks associated with leasing real property. Some of these risks include the changing supply or demand for retail premises, redevelopment or rezoning of existing leased locations, inflationary pressures on labour and materials to construct new or renovate existing locations, a change in the mix of complementary co-tenants in retail centres where the Company operates and shifting consumer preferences that could negatively impact both the popularity of specific retail locations and the retail channel as a whole.

The Company enters into a variety of short, medium and long-term leases for its retail locations based on a variety of factors, such as store performance, demographic trends and developments in the market. Deal structures contemplate a range of financial commitments, including traditional fixed rent, percentage rent and combinations of both structures. Although leases are closely monitored by management, and the Company focuses on maintaining positive relationships with its landlords, there can be no assurances that the Company will be able to extend, renew or continue to lease its existing locations, or identify and secure alternative suitable locations on favourable terms and conditions. Unforeseen increases in occupancy costs, or costs incurred due to unanticipated store closings or relocations, could also unfavourably impact the Company's performance.

The Company subleases space in its retail store network to café vendors, exposing the Company to certain risks inherent in the commercial real estate business, including increase in re-leasing timelines, potential delays in lease-up of vacant space and the market terms at which such subleases can be executed. The Company is actively working with a number of new and existing café vendors, including local, regional and international brands, to bring those café experiences into the Company's retail locations, however there are no assurances that these negotiations will result in any new café locations, or that these partnerships will materially benefit the Company's financial position.

Insurance Coverage

The Company maintains insurance customary for businesses of its size and scope of operations, including liability insurance, property and business interruption insurance, cargo insurance, directors' and officers' insurance, crime insurance and cyber insurance, with deductibles, self-insured retentions, limits of liability and similar provisions. However, there is no guarantee that the insurance coverage will be sufficient, or that insurance proceeds will be paid out on a timely basis. In addition, there are types of losses the Company may incur but against which insurance cannot be procured or which is not economically reasonable to insure. If the Company incurs these losses and they are material, the business, financial condition and results of operations of Indigo may be adversely affected.

Information Technology and Digital Platforms

The Company increasingly depends on the proper operation of its information technology platforms and those of third parties to successfully conduct daily business functions, including point-of-sale processing at stores, the operation of its ecommerce channel, maintaining its competitive position in the marketplace and enabling its growth strategy. The increased adoption of ecommerce has heightened the potential impact of various risk events including website downtime and other technical failures that could adversely impact revenues and affect the Company's ability to grow its digital channels.

The Company uses third-party cloud-based and traditional data centre facilities to support its technology infrastructure. The continuous availability of its products depends on the operations of these facilities, on a variety of network service providers, on third-party vendors and on data centre and cloud operations staff. In addition, the Company depends on the ability of its third-party facility providers to protect their facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. If there are any lapses of service or damage to the facilities, the Company could experience lengthy interruptions in its services, as well as delays and additional expenses in arranging new facilities and services.

As described above in "Description of the Business—Information Systems", the Company continues to invest in new technologies to expand its competitiveness and customer experience. Customers expect innovative concepts and a positive customer experience, including a user-friendly website, customer offerings that are integrated with the Company's loyalty program, reliable data, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. Any failure in the implementation of these solutions, the operation of current information technology systems, platforms or third-party cloud-based processing could result in a significant disruption to the business, potentially negatively impacting revenue or damaging the Company's reputation. Furthermore, the Company continues to rely on certain legacy technologies and systems and any failure to maintain and support these legacy systems or migrate to new technology systems could impact Indigo's operational effectiveness. If systems are damaged or cease to function properly, capital investment may be required.

The rapid and exponential growth of cloud computing and ecommerce has resulted in the emergence of a global ecosystem of digital tools and applications that have been increasingly adopted by the Company and its peers. These cloud-based solutions promote competitiveness while offering the flexibility to respond to evolving business initiatives and have been increasingly adopted by the Company. Migration to cloud-based providers has increased reliance on third-party technology providers and the associated exposure to risks of such service providers ceasing business operations, changing their business models, reducing functionality or experiencing cyber attacks or system outages. The Company is also vulnerable to the risks associated with infrastructure complexity, vendor lock-in, and people risks associated with knowledge management and skills change.

Cybersecurity

A failure, or breach of the Company's information technology, operational or procedures, security systems, physical infrastructure, or those of Indigo's third-party vendors, cloud-based service providers, including as a result of cyber attacks, could disrupt the business, and result in the unintended disclosure or misuse of confidential or proprietary information, damage Indigo's brand and reputation, lead to temporary or permanent loss of data, increase the Company's remediation costs and legal liabilities, and impact its financial position and/or ability to achieve its strategic objectives.

Cyber threats continuously increase in sophistication, and may become more difficult to anticipate, and detect on a timely basis. Indigo has invested substantially to increase its IT-security posture, however, a lapse in cybersecurity, or successful cyber attack, may defeat the Company's security measures or those of its cloud-based service providers or third-party vendors. This includes the risk that the Company's website and digital platforms may be subject to distributed denial-of-service attacks in the future, a technique used by hackers to take an Internet service offline by overloading its servers. To mitigate these risks, Indigo has reinforced its Third-Party Risk Management ("TPRM") process, which include deploying reputable and reliable security measures.

Techniques used to obtain unauthorized access change frequently, ranging from denial-of-service attacks to social engineering. Ransomware attacks are increasing exponentially while phishing attempts remain a constant industry threat. Indigo has deployed Endpoint Detection and Response ("EDR") solutions on all assets to reduce the risk of compromise. Since techniques used to obtain unauthorized access change frequently, the Company has deployed multi-factor authentication requirements for any access to Indigo's network, along with tighter security to manage privileged accounts. A data loss or security breach stemming from one of these ransomware or denial of service attacks could delay or interrupt service to the Company's customers. In addition, any actual or perceived cyber attack or security breach could damage the Company's reputation and brand, expose the Company to a risk of litigation and possible liability, and require the Company to expend significant capital and other resources. These collective risks have been heightened in recent years as threat actors have notably taken concerted efforts in the retail industry and the broader market to take advantage of disruptions associated with the COVID-19 pandemic and other previously unreported flaws in third-party software as widely reported in the media.

While the Company relies on technology, training and robust processes to create secure technology systems, Indigo places specific reliance on technology to ensure the secure transmission of information from its customers, such as credit and debit card numbers or any other form of payment or loyalty program data. Indigo's adoption of point-to-point encryption technology secures the Credit Card Primary Account Number (PAN). The Company also receives, transmits and stores a large volume of personally identifiable information from current and potential customers which is exposed to risk. There are also federal, provincial and foreign regulations regarding privacy and the storing, sharing, use, disclosure and protection of personally identifiable information and sensitive data; please see the "Compliance with Privacy Laws" Risk Factor below.

Although Indigo has business continuity plans, business interruption and cyber insurance coverage, robust information security procedures, employee security awareness training, and other safeguards in place, the Company's business operations may be adversely affected by significant and widespread disruption to its physical information technology infrastructure, networks, and cloud-based service providers. As the cyber threat landscape evolves, the Company has expended significant additional resources to modify or enhance its protective measures to protect against, among other things, security breaches, computer viruses and malware, ransomware, phishing, hacktivism, cyberterrorism, denial-of-service attacks, credentials compromise, or to investigate and remediate any information security vulnerabilities. Additionally, please see the "Remote Work" Risk Factor and "Ransomware Attack Update" in this MD&A.

Disaster Recovery and Business Continuity

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

Intellectual Property

The Company depends on its continued ability to use its intellectual property to increase brand awareness and further develop brands and products. Infringement of the Company's intellectual property could negatively affect the Company's revenue, profitability and reputation. While the Company is not currently aware of any infringement or material challenges to the use of its trademarks and domain names in Canada or the United States, the Company has a strategy and processes in place to protect and vigorously defend its intellectual property, but there can be no assurance that these measures can fully eliminate the negative impact of such risks.

The Company may also face claims from third parties asserting that the Company's use of intellectual property infringes on such third party's ownership or use rights. The defence of any such claims or litigation could result in substantial expense and diversion of resources. There is no guarantee that the Company will be able to resolve such claims and disputes to its satisfaction, and if the Company is unable to successfully defend itself against these claims, it could adversely affect the Company's reputation, operations and financial condition and performance. Please see the "Legal Proceedings" Risk Factor below.

Legal Proceedings

From time to time, in the normal course of business, Indigo becomes involved in litigation and disputes. The outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, which creates the risk that an unfavourable outcome in any of these matters could negatively affect the Company's reputation, operations and financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to the Company and significantly divert the attention of the Company's management. While the final outcome of such claims and litigation pending as at April 1, 2023 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Regulatory Environment

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

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

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

The sourcing and importation of books into Canada is governed by the Book Importation Regulations to the *Copyright Act* (Canada). Any changes to the existing regulatory framework may impact the Company's ability to secure and maintain favourable terms and access to essential products, which could negatively impact the Company's revenues and margins and its ability to compete in the marketplace. Foreign investments to acquire control of Canadian "cultural businesses," which include businesses engaged in the sale and distribution of books, are subject to review under the *Investment Canada Act*. There is no assurance that the existing regulatory framework will stay the same in the future or that it will continue to act as a potential constraint on either (i) foreign-owned retailers from competing in Canada or (ii) the acquisition by foreign investors of Canadian retailers involved in cultural businesses. An increased number of competitors could have an adverse effect on the Company's financial performance. Please see the "Competition" Risk Factor above.

Compliance with Privacy Laws

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

Climate Change and the Environment

Environmental risks relating to the global transition to a net-zero economy and the physical impacts of climate change affect Indigo. Governments are moving to introduce climate change legislation and treaties at the international, national, state/provincial and local levels. Regulation relating to emission levels (such as carbon taxes) and energy use and efficiency is becoming more stringent. This trend could lead to an increased cost of compliance over time, the impact of which is not currently known.

The physical risk of climate change could also have an adverse effect on the Company's operations. These risks include extreme weather related events that could have an impact on store operations and supply chain and delivery logistics. The Company can provide no assurance that efforts to mitigate the risks of climate change will be effective and that the physical risks of climate change will not have an adverse effect on its operations.

The Company assesses its sustainability profile and environmental impact on a consistent basis, resulting in the release of its own Net-Zero Roadmap and 'Write the Future' campaign and the allocation of resources dedicated to sustainability efforts to achieve these impact goals. However, environmental regulation is subject to change and these changes and the Company's own initiatives with respect to environmental sustainability could result in material additional costs to the business over time.

Disclosure Controls and Procedures

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at April 1, 2023.

Internal Controls over Financial Reporting

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

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such internal controls over financial reporting using the framework established in the Internal Control—Integrated Framework ("COSO Framework") published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at April 1, 2023.

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the quarter and year ended on April 1, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

During the year, the Company relocated its Enterprise Resource Planning ("ERP") system from on-premise servers to a third-party cloud storage facility. The Company implemented additional controls during the transition period to adequately mitigate the risks associated with the migration.

The Company has determined that no other material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience, analysis, and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. Whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including ongoing impacts from the ransomware attack; future impacts of the COVID-19 pandemic; general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. See "Risk Factors" in this MD&A for additional information about factors or assumptions that could cause actual results to differ materially from expectations and that are applied in making forward-looking information.

Non-IFRS Financial Measures

The Company prepares its consolidated financial statements in accordance with IFRS. To provide additional insight into the business, the Company has also provided non-IFRS data, including 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. Adjusted EBITDA also excludes the impact of certain events that are non-recurring or unusual in nature that the Company believes are not otherwise reflective of ongoing operations and which would make comparisons of underlying financial performance between periods difficult.

Reconciliations between Adjusted EBITDA and earnings (loss) before income taxes (the most comparable IFRS measure) were included earlier in this report under "Results of Operations".

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.

independent auditor's report

To the Shareholders of Indigo Books & Music Inc.

Opinion

We have audited the consolidated financial statements of Indigo Books & Music Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at April 1, 2023 and April 2, 2022, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), consolidated statements of changes in equity (deficit) and consolidated statements of cash flows for the 52-week periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at April 1, 2023 and April 2, 2022, and its consolidated financial performance and its consolidated cash flows for the 52-week periods then ended in accordance with International Financial Reporting Standards ("IFRs").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter	How our audit addressed the key audit matter
Valuation of property, plant and equipment, right-of-use-assets and intangible assets (collectively, "long-lived assets")	
As at April 1, 2023, the Group has $52 million of property, plant, and equipment, $35 million of intangible assets and $318 million of right-of-use assets, as disclosed in notes 9, 11 and 10, respectively, of the consolidated financial statements. As disclosed in note 4, these long-lived assets are assessed for impairment at the store-level cash-generating unit ("CGU"), except for corporate assets which cannot be allocated on a reasonable and consistent basis to individual CGUs which are assessed for impairment at the corporate level. Any time an indicator of impairment exists, management assesses whether there has been an impairment loss in the carrying value of these long-lived assets. When performing impairment tests, the Group estimates the recoverable amount of the CGUs or group of CGUs using a discounted cash flow model. Auditing management's long-lived asset impairment tests was complex, given the degree of judgement and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the CGUs or group of CGUs. Significant assumptions included expected sales growth rates, earnings margins and discount rate, which are affected by expectations about future consumer behaviour and the impacts of the COVID-19 global pandemic.	To test the recoverable amount of the Group's CGUs or group of CGUs, our audit procedures included, among others, assessing the significant assumptions discussed above and underlying data used by the Group in its analysis. With the assistance of our valuations specialists, we evaluated the Group's model, valuation methodology and certain assumptions, including the discount rate. We assessed the selection of the discount rate by evaluating the inputs against relevant internal and external sources. We assessed the application of the discount rate by evaluating the mathematical accuracy of the calculation. We assessed the historical accuracy of management's estimates on expected sales growth rates and earnings margins by comparing management's past projections to actual and historical performance. We also compared the sales growth rates and the earnings margins to current trends and market data discussing the outlook of the Canadian retail industry. We performed sensitivity analysis on significant assumptions, including the sales growth rates, earnings margins and discount rate, to evaluate the impact of the changes in the recoverable amount of the CGUs or group of CGUs that would result from changes in the assumptions.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants

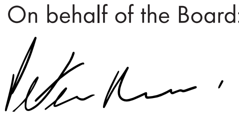
June 27, 2023
Toronto, Canada

consolidated balance sheets

(thousands of Canadian dollars)	As at April 1, 2023	As at April 2, 2022
ASSETS		
Current		
Cash and cash equivalents (note 6)	65,113	86,469
Accounts receivable	14,069	12,941
Inventories (note 7)	244,063	273,849
Prepaid expenses	6,830	13,508
Derivative assets (note 8)	699	–
Other assets	1,254	3,246
Total current assets	332,028	390,013
Property, plant, and equipment, net (note 9)	52,464	64,319
Right-of-use assets, net (note 10)	318,302	333,767
Intangible assets, net (note 11)	35,287	21,171
Equity investment, net (note 12)	–	97
Total assets	738,081	809,367
LIABILITIES AND EQUITY (DEFICIT)		
Current		
Accounts payable and accrued liabilities (note 22)	169,860	178,138
Unredeemed gift card liability	66,887	62,653
Provisions (notes 14 and 22)	1,879	472
Deferred revenue	20,129	20,699
Short-term lease liabilities (notes 10 and 22)	69,161	69,100
Derivative liabilities (note 8)	–	631
Total current liabilities	327,916	331,693
Long-term accrued liabilities (note 22)	1,007	1,068
Long-term provisions (notes 14 and 22)	851	702
Long-term lease liabilities (notes 10 and 22)	428,284	448,084
Total liabilities	758,058	781,547
Equity (deficit)		
Share capital (note 16)	227,094	227,090
Contributed surplus (note 17)	15,463	14,618
Retained deficit	(262,969)	(213,403)
Accumulated other comprehensive income (loss) (note 8)	435	(485)
Total equity (deficit)	(19,977)	27,820
Total liabilities and equity (deficit)	738,081	809,367

See accompanying notes

On behalf of the Board:



"Donald Lewtas"

Peter Ruis
Director

Donald Lewtas
Director

consolidated statements of earnings (loss) and comprehensive earnings (loss)

(thousands of Canadian dollars, except per share data)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Revenue (note 18)	1,057,740	1,062,250
Cost of sales (note 7)	(641,529)	(619,212)
Gross profit	416,211	443,038
Operating, selling, and other expenses (notes 9, 10, 11 and 18)	(442,005)	(414,020)
Operating profit (loss)	(25,794)	29,018
Net interest expense (note 10)	(24,143)	(23,694)
Share of loss from equity investment (note 12)	–	(32)
Impairment loss from equity investment (note 12)	–	(2,027)
Gain on sale of equity investment (note 12)	186	–
Earnings (loss) before income taxes	(49,751)	3,265
Income tax recovery (note 13)	185	–
Net earnings (loss)	(49,566)	3,265
Other comprehensive income (loss) (notes 8 and 10)		
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:		
Change in fair value of cash flow hedges	5,705	(639)
Reclassification of realized loss (gain)	(4,559)	1,630
Foreign currency translation adjustment	(226)	44
Other comprehensive income	920	1,035
Total comprehensive earnings (loss)	(48,646)	4,300
Net earnings (loss) per common share (note 19)		
Basic	$(1.78)	$0.12
Diluted	$(1.78)	$0.12

See accompanying notes

consolidated statements of changes in equity (deficit)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity (Deficit)
Balance, April 3, 2021	226,986	13,782	(216,668)	(1,520)	22,580
Net earnings for the period	—	—	3,265	—	3,265
Exercise of options (notes 16 and 17)	104	(28)	—	—	76
Share-based compensation (note 17)	—	864	—	—	864
Cash flow hedges (note 8)	—	—	—	991	991
Foreign currency translation adjustment (notes 9 and 10)	—	—	—	44	44
Balance, April 2, 2022	227,090	14,618	(213,403)	(485)	27,820
Balance, April 2, 2022	**227,090**	**14,618**	**(213,403)**	**(485)**	**27,820**
Net loss for the period	—	—	(49,566)	—	(49,566)
Exercise of options (notes 16 and 17)	4	(1)	—	—	3
Share-based compensation (note 17)	—	846	—	—	846
Cash flow hedges (note 8)	—	—	—	1,146	1,146
Foreign currency translation adjustment (notes 9 and 10)	—	—	—	(226)	(226)
Balance, April 1, 2023	**227,094**	**15,463**	**(262,969)**	**435**	**(19,977)**

See accompanying notes

consolidated statements of cash flows

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
OPERATING ACTIVITIES		
Net earnings (loss)	(49,566)	3,265
Adjustments to reconcile net earnings (loss) to cash flows from operating activities		
Depreciation of property, plant, and equipment (note 9)	15,667	16,006
Depreciation of right-of-use assets (note 10)	41,419	36,144
Amortization of intangible assets (note 11)	9,898	11,886
Loss on disposal of capital assets (notes 9 and 11)	141	29
Share-based compensation (note 17)	846	864
Deferred income tax recovery (note 13)	(185)	–
Share of loss from equity investment (note 12)	–	32
Impairment loss from equity investment (note 12)	–	2,027
Gain on sale of equity investment (note 12)	(186)	–
Other	1,417	(328)
Net change in non-cash working capital balances related to operations (note 20)	34,209	(12,338)
Interest expense (note 10)	25,573	24,514
Interest income	(1,430)	(820)
Cash flows from operating activities	77,803	81,281
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment (note 9)	(3,343)	(3,248)
Addition of intangible assets (note 11)	(24,015)	(12,143)
Proceeds from disposal of equity investment (note 12)	283	1,032
Interest received	1,430	820
Cash flows used for investing activities	(25,645)	(13,539)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 10)	(46,227)	(41,641)
Interest paid (note 10)	(25,573)	(24,514)
Proceeds from related party credit facility (note 23)	25,000	–
Repayment of related party credit facility (note 23)	(25,000)	–
Proceeds from share issuances (notes 16 and 17)	3	76
Cash flows used for financing activities	(71,797)	(66,079)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,717)	(129)
Net increase (decrease) in cash and cash equivalents during the period	(21,356)	1,534
Cash and cash equivalents, beginning of period	86,469	84,935
Cash and cash equivalents, end of period	65,113	86,469

See accompanying notes

notes to consolidated financial statements

April 1, 2023

1. Corporate Information

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

2. Nature of Operations

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, home, wellness, fashion, paper, baby and kids products that supports customers by simplifying their journey to *Living with Intention*. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 87 superstores (2022 – 88) under the *Indigo* and *Chapters* names, as well as 84 small format stores (2022 – 85) under the banners *Coles* and *Indigospirit*. Retail operations are seamlessly integrated with the Company's digital platforms, 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 defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate capital resources. At Indigo, this is done on an enterprise level. This holistic managerial approach is reflected in the Company's reimagined new store concept. The new store design emphasizes a central focus on enriching the lives of book lovers with core print and general merchandise products. Therefore, the Company reports as a single segment.

The Company supports a separate registered charity, called the Indigo Love of Reading Foundation (the "Foundation"). The Foundation is committed to addressing educational inequality, and more specifically, the literacy crisis in Canada. With the support of Indigo, its customers, employees, and suppliers, the Foundation provides year-round curation support, training and resources to help ensure teachers, education staff, school administrators and other key stakeholders have the tools they need to promote literacy in their communities.

3. Basis of Preparation

Statement of Compliance

These consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors on June 27, 2023.

Fiscal Year

The fiscal year of the Company ends on the Saturday closest to March 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended April 1, 2023 and April 2, 2022 both contained 52 weeks. The next 53-week period will be for the fiscal year ending April 3, 2027.

Ransomware Attack

On February 8, 2023, Indigo was the victim of a ransomware attack, resulting in internal operational disruptions and service disruptions to both sales channels. The Company's ecommerce platforms were completely shutdown, with the full website being restored after four weeks. The retail network was unable to process electronic payments for approximately three days and experienced other operational limitations that impacted the Company's ability to fulfil demand.

The complete and long-term financial impact of the ransomware attack cannot be reasonably estimated at this time; however, it has had a material impact on the Company's fiscal 2023 financial results. The Company maintains cyber insurance coverage, and is in the process of working with its insurer to make claims under the policy. However, due to the complexity of cyber insurance coverage, there will be a time lag between the business interruption losses and response and remediation costs incurred, and the recovery of insurance proceeds, the extent of which management cannot reasonably predict. Furthermore, management cannot predict the future costs expected to be incurred in fiscal 2024 to complete remediation, as well as the impact of any residual changes to consumer behaviour as a result of the incident.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. Since the pandemic began, the Company has experienced rolling closures and capacity restrictions to its retail network, as directed by local governments and public health authorities. This notably included Canada-wide closures that negatively impacted the Company's retail operations. All stores remained open throughout fiscal 2023, while 93 retail locations were closed for part of the first quarter in the prior year. The Company also implemented mandated government capacity restrictions in the third and fourth quarters of the prior year, which adversely affected retail traffic in the Company's store network, particularly during critical holiday selling weeks in the month of December. The COVID-19 pandemic has introduced volatility to the economy and financial markets on a global scale, impacted consumer spending and disrupted supply chains, the extent of which will depend on future developments that are highly uncertain and cannot be reliably forecasted. The effects of the pandemic have had, and can continue to have, a negative impact on the Company's retail operations, distribution centres, head office operations and supply chain, and could result in the reassessment of its significant accounting estimates, including but not limited to impairment of assets.

Use of Judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

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

Use of Estimates

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

Impairment

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

Inventories

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

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

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

Leases

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

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

Revenue

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

Indigo's *plum*® loyalty program, which includes the *plum*® and *plum*® PLUS membership tiers, allows customers to earn points on their purchases. The allocation of transaction price to the *plum*® loyalty obligation, which is the estimated reward tier value of a future redemption net of points management expects will go unredeemed ("*plum*® breakage"), is based on the relative stand-alone selling price. The Company continues to monitor trends in redemption patterns (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed.

Share-based payments

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

4. Summary of Significant Accounting Policies

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

Basis of Measurement

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

Basis of Consolidation

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

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

Foreign Currency

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

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

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

Equity Investments

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

Cash and Cash Equivalents

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

Inventories

Inventories are valued at the lower of cost, determined on a moving average cost basis, and market, being net realizable value. Costs include all direct and reasonable expenditures that are incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business. When the Company permanently reduces the retail price of an item and the markdown incurred brings the retail price below the cost of the item, there is a corresponding reduction in inventory recognized in the period. Vendor rebates are recorded as a reduction in the price of the products and corresponding inventories are recorded net of vendor rebates.

Prepaid Expenses

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

Income Taxes

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

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

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

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

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

Property, Plant, and Equipment

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

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

The following useful lives are applied:

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

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

Intangible Assets

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

Amortization commences when the intangible assets are available for their intended use. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life. Intangible assets with indefinite lives are not amortized but are reviewed at each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Residual value is estimated to be nil unless the Company expects to dispose of the asset at a value that exceeds the estimated disposal costs. The residual values, useful lives, and amortization methods applied to intangible assets are reviewed annually based on relevant market information and management considerations.

The following useful lives are applied:

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

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

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

Computer application software

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

Cloud computing costs

Service fees associated with cloud computing arrangements are recognized as an expense, unless it is determined that the terms of the service arrangement provide the Company with an identifiable asset. Costs incurred that are directly attributable to configuration or customization of a cloud computing arrangement are also assessed for whether they meet the definition of an asset. Configuration or customization costs not meeting this criteria are generally expensed as incurred, but may be expensed over the contract term if they are determined not to be distinct from access to the cloud computing arrangement.

Internal development costs

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

Retail lease

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

Leases

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

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

The Company performs quarterly assessments of contracts that do not take the legal form of a lease to determine whether they convey the right to use an asset in return for a payment or series of payments and therefore need to be accounted for as leases. As at April 1, 2023, the Company had no such contracts.

Impairment Testing

Capital assets

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

An impairment loss is recognized for the amount by which the carrying amount of a CGU or group of CGUs exceeds its recoverable amount. To determine the recoverable amount, management applies the higher of the CGU's value-in-use or fair value less costs to dispose. The value-in-use calculation quantifies the present value of the expected future cash flows from each CGU or group of CGUs based on the CGU's estimated growth rate. The Company's growth rate and future cash flows are based on historical data and management's expectations. Impairment losses are charged pro rata to the capital assets in the CGU or group of CGUs. Capital assets and CGUs or groups of CGUs are subsequently reassessed for indicators that a previously recognized impairment loss may no longer exist. An impairment loss is reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Equity Investments

Equity investments are assessed for indicators of impairment at each reporting date. When present, the investment is tested for impairment on an individual basis. The carrying amount of the investment is compared to the recoverable amount, which is the higher of value-in-use or fair value less costs to dispose. Any resulting impairment loss is allocated against the investment as a whole. An impairment loss is reversed if the recoverable amount of the investment exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

Financial assets

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

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

Provisions

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

Total Equity (Deficit)

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

Share-Based Awards

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

Revenue Recognition

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

Retail sales

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

Online sales

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

Gift cards

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

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

Indigo *plum*® rewards program

Indigo's loyalty program, *plum*®, has two tiers: *plum*®, a free points-based tier; and *plum*® PLUS, an annual fee-based tier. The *plum*® program is an omnichannel program that allows members to earn and redeem points online and in store, seamlessly. This program engages members through mass promotions and targeted one-to-one promotional offers, as well as invitations to exclusive events and member-only shopping experiences. *plum*® PLUS offers its members an immediate discount on eligible products, free shipping and the ability to earn points on almost every dollar spent at the Company's Canadian stores, as well as on its digital platforms.

When a *plum*® PLUS membership is sold, the amount is recognized in deferred revenue and amortized into revenue over the life of the membership, based on historical usage patterns.

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

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

Interest income

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

Vendor Rebates

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

Earnings (Loss) per Share

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

Financial Instruments

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

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

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

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

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

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

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

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

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

- Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.
- Level 2: Valuations based on quoted inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

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

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

[i] The initial fair values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values given their short maturities; and

[ii] The fair value of derivative financial instruments are estimated using quoted market rates at the measurement date adjusted for the maturity term of each instrument. The Company's portfolio of derivative financial instruments as at April 1, 2023 is classified as Level 2 in the fair value hierarchy.

Derivative financial instruments and hedge accounting

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

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

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

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

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

Retirement Benefits

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

5. New Accounting Pronouncements

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

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

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

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

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

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	As at April 1, 2023	As at April 2, 2022
Cash	63,981	83,596
Restricted cash	1,104	2,845
Cash equivalents	28	28
Cash and cash equivalents	65,113	86,469

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

7. Inventories

The cost of inventories recognized as an expense during the 52-week period ended April 1, 2023 was $602.0 million (2022—$592.9 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserves and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 52-week period ended April 1, 2023 was $13.6 million (2022—$9.1 million). The amount of inventory with net realizable value equal to cost was $4.7 million as at April 1, 2023 (April 2, 2022—$2.8 million).

8. Derivative Financial Instruments

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

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

During the fiscal year ended April 1, 2023, the Company entered into contracts with total notional amounts of C$78.6 million to purchase U.S. dollar/Canadian dollar currency pair forwards (2022—C$155.7 million). As at April 1, 2023, the Company had remaining contracts in place representing total notional amounts of C$14.1 million (April 2, 2022—C$67.1 million) at an average forward rate of 1.29 (2022—1.26). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at April 1, 2023 resulted in the recognition of a derivative asset of $0.7 million (April 2, 2022—no derivative asset) and no derivative liability (April 2, 2022—$0.6 million).

During the fiscal year ended April 1, 2023, the Company had net gains (net of taxes) of $5.7 million from the change in fair value of outstanding cash flow hedges (2022—net losses (net of taxes) of $0.6 million). During the same period, the Company reclassified net gains (net of taxes) from settled contracts out of other comprehensive income (loss) to inventory and expenses of $3.3 million (2022—net losses (net of taxes) of $1.6 million).

During the fiscal year ended April 1, 2023, the Company terminated certain derivative instruments and, consequently, hedge accounting was discontinued. A gain of $1.3 million (net of taxes) was reclassified out of other comprehensive income (loss) and recognized in earnings concurrently with the related hedged transactions, which also occurred during the fiscal year. There were no other forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 52-week periods ended April 1, 2023 and April 2, 2022.

This resulted in other comprehensive income of $1.1 million for the 52-week period ended April 1, 2023 (2022—other comprehensive income of $1.0 million).

Potential causes of mismatch between the hedging instrument and hedged item that 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 were immaterial for the 52-week periods ended April 1, 2023 and April 2, 2022. Realized foreign exchange amounts as a result of derivative financial instruments were $0.7 million for the 52-week period ended April 1, 2023 (2022—immaterial realized foreign exchange).

9. Property, Plant, and Equipment

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Total
Gross carrying amount				
Balance, April 3, 2021	88,178	15,646	53,672	157,496
Additions, net	764	1,361	1,123	3,248
Disposals	(45)	(19)	(32)	(96)
Assets with zero net book value	(3,990)	(1,259)	(1,147)	(6,396)
Foreign currency adjustment	(9)	–	(18)	(27)
Balance, April 2, 2022	**84,898**	**15,729**	**53,598**	**154,225**
Additions, net	**1,941**	**1,064**	**338**	**3,343**
Disposals	**(338)**	**(24)**	**(144)**	**(506)**
Assets with zero net book value	**(4,472)**	**(4,977)**	**(895)**	**(10,344)**
Foreign currency adjustment	**208**	**–**	**401**	**609**
Balance, April 1, 2023	**82,237**	**11,792**	**53,298**	**147,327**
Accumulated depreciation				
Balance, April 3, 2021	44,202	8,629	27,534	80,365
Depreciation	7,949	2,939	5,118	16,006
Disposals	(28)	(13)	(28)	(69)
Assets with zero net book value	(3,990)	(1,259)	(1,147)	(6,396)
Balance, April 2, 2022	**48,133**	**10,296**	**31,477**	**89,906**
Depreciation	**7,714**	**2,734**	**5,219**	**15,667**
Disposals	**(214)**	**(13)**	**(139)**	**(366)**
Assets with zero net book value	**(4,472)**	**(4,977)**	**(895)**	**(10,344)**
Balance, April 1, 2023	**51,161**	**8,040**	**35,662**	**94,863**
Net carrying amount				
April 2, 2022	36,765	5,433	22,121	64,319
April 1, 2023	**31,076**	**3,752**	**17,636**	**52,464**

10. Lease Balances

The following table reconciles the change in right-of-use assets:

(thousands of Canadian dollars)	
Gross carrying amount	
Balance, April 3, 2021	485,842
Additions	8,134
Foreign currency adjustment	(87)
Balance, April 2, 2022	**493,889**
Additions	**24,517**
Foreign currency adjustment	**1,437**
Balance, April 1, 2023	**519,843**
Accumulated depreciation	
Balance, April 3, 2021	123,978
Depreciation	36,144
Balance, April 2, 2022	**160,122**
Depreciation	**41,419**
Balance, April 1, 2023	**201,541**
Net carrying amount	
April 2, 2022	333,767
April 1, 2023	**318,302**

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Balance, beginning of period	**517,184**	550,274
Lease modifications included in the scope of IFRS 16	**24,517**	8,672
Interest expense on lease liabilities	**25,573**	24,514
Repayment of interest and principal on lease liabilities	**(71,800)**	(66,155)
Foreign currency adjustment	**1,971**	(121)
Balance, end of period	**497,445**	517,184

During the 52-week period ended April 1, 2023, the Company expensed $0.3 million (2022—$0.5 million) of base rent payments relating to short-term leases for which the recognition exemption was applied, and these payments were not included in the lease liabilities.

The Company earned income from subleases of $5.1 million for the 52-week period ended April 1, 2023 (2022—$3.5 million). All of the Company's subleases are classified as operating leases and are net against operating expenses or recorded as gross sublease revenue.

As at April 1, 2023, the Company had leases in respect of its stores and support office premises. The future undiscounted minimum lease commitments for the Company's leased premises, excluding other occupancy charges and variable lease payments, are as follows:

(thousands of Canadian dollars)	Total
2024	68,228
2025	64,728
2026	54,798
2027	48,588
2028	40,635
Thereafter	115,591
Total obligations	**392,568**

11. Intangible Assets

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Retail lease	Total
Gross carrying amount					
Balance, April 3, 2021	25,970	17,537	3,387	1,207	48,101
Additions	6,680	5,463	–	–	12,143
Disposals	(5)	–	–	–	(5)
Assets with zero net book value	(11,882)	(8,009)	–	–	(19,891)
Balance, April 2, 2022	**20,763**	**14,991**	**3,387**	**1,207**	**40,348**
Additions	**20,190**	**3,825**	**–**	**–**	**24,015**
Disposals	**(3)**	**–**	**–**	**–**	**(3)**
Assets with zero net book value	**(5,942)**	**–**	**–**	**–**	**(5,942)**
Balance, April 1, 2023	**35,008**	**18,816**	**3,387**	**1,207**	**58,418**
Accumulated amortization					
Balance, April 3, 2021	15,766	9,953	259	1,207	27,185
Amortization	6,843	5,043	–	–	11,886
Disposals	(3)	–	–	–	(3)
Assets with zero net book value	(11,882)	(8,009)	–	–	(19,891)
Balance, April 2, 2022	**10,724**	**6,987**	**259**	**1,207**	**19,177**
Amortization	**5,175**	**4,723**	**–**	**–**	**9,898**
Disposals	**(2)**	**–**	**–**	**–**	**(2)**
Assets with zero net book value	**(5,942)**	**–**	**–**	**–**	**(5,942)**
Balance, April 1, 2023	**9,955**	**11,710**	**259**	**1,207**	**23,131**
Net carrying amount					
April 2, 2022	10,039	8,004	3,128	–	21,171
April 1, 2023	**25,053**	**7,106**	**3,128**	**–**	**35,287**

The useful life of the domain name has been deemed to be indefinite because there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this asset to the Company.

12. Equity Investment

The Company previously held an equity ownership in Unplug Meditation, LLC ("Unplug"), which operates meditation studios in the U.S., that included a 20% voting interest and representation on the board of managers. During the second quarter of fiscal 2023, the Company sold its equity investment in Unplug for proceeds of $0.3 million, resulting in a gain on sale of $0.2 million. The Company historically used the equity method of accounting to recognize its share of earnings and losses from Unplug.

Changes in the carrying amount of Unplug were as follows:

(thousands of Canadian dollars)	Carrying value
Balance, April 3, 2021	2,156
Share of loss from Unplug	(32)
Impairment of investment	(2,027)
Balance, April 2, 2022	**97**
Disposal of investment	(97)
Balance, April 1, 2023	**–**

13. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for income tax purposes. The Company recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized.

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

(thousands of Canadian dollars)	As at April 1, 2023	As at April 2, 2022
Reserves and allowances	3,219	3,908
Non-capital loss carryforwards	26,522	18,205
Capital loss carryforwards	639	319
Corporate minimum tax credit	3,379	3,379
Book amortization in excess of capital cost allowance	57,258	50,823
Lease liabilities	130,675	136,070
Cash flow hedges	–	167
Total deferred tax assets	**221,692**	212,871
Right-of-use assets	(83,615)	(87,808)
Cash flow hedges	(185)	–
Total deferred tax liabilities	**(83,800)**	(87,808)
Net deferred tax assets	**137,892**	125,063
Value of deferred tax assets not recognized in the current period	(137,892)	(125,063)
Recognized net deferred tax assets	**–**	–

As at April 1, 2023, all net deferred tax assets have not been recognized (April 2, 2022—all net deferred tax assets not recognized). This decision was influenced by the operating losses recognized in the current and recent periods. As such, uncertainty exists surrounding the probability of sufficient taxable income being available to utilize all deferred tax assets within the timeline of management's forecasts. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carryforwards, and other deferred tax assets that do not expire.

As at April 1, 2023, the Company had Canadian non-capital tax loss carryforwards of $87.2 million: $35.1 million that expire in 2031, $8.3 million that expire in 2039, $1.2 million that expire in 2040, $14.4 million that expire in 2041, and $28.2 million that expire in 2043. Canadian capital loss carryforwards total $2.4 million.

The Company also had $11.8 million of both U.S. federal and U.S. state non-capital losses in the states in which it operates. The federal losses have no expiration, and the state losses expire between 2039 and 2042. U.S. capital loss carryforwards total $2.4 million.

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

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Current income tax expense (recovery)	–	–
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(5,323)	(6,262)
Deferred income tax expense (recovery) relating to change in non-capital loss carryforwards	(7,736)	7,220
Adjustment resulting from a change in substantively enacted tax rates and expected pattern of reversal	180	(283)
Adjustment in deferred tax assets not recognized	12,407	(708)
Other, net	287	33
Total income tax expense (recovery)	**(185)**	–

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

(thousands of Canadian dollars)	52-week period ended April 1, 2023	%	52-week period ended April 2, 2022	%
Earnings (loss) before income taxes	(49,751)		3,265	
Tax at combined federal, provincial and state tax rates	(13,318)	26.8 %	852	26.1 %
Tax effect of expenses not deductible for income tax purposes	307	(0.6)%	273	8.3 %
Adjustment to deferred tax assets resulting from changes in substantively enacted tax rates and expected pattern of reversal	180	(0.4)%	(283)	(8.7)%
Adjustment in deferred tax assets not recognized	12,407	(24.9)%	(708)	(21.7)%
Adjustment with respect to prior periods	21	– %	72	2.2 %
Other, net	218	(0.4)%	(206)	(6.3)%
Total income tax expense (recovery)	**(185)**	**0.4 %**	–	– %

14. Provisions

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

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

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Balance, beginning of period	1,174	3,192
Arising during the period	2,120	–
Utilized/released	(564)	(2,018)
Balance, end of period	**2,730**	**1,174**

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

15. Contingencies

Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 1, 2023 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position or financial performance, except for those amounts that have been recorded as provisions on the Company's consolidated balance sheets.

16. Share Capital

Share capital consists of the following:

	52-week period ended April 1, 2023		52-week period ended April 2, 2022	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	27,349,711	227,090	27,273,961	226,986
Issued during the period				
Options exercised	3,000	4	75,750	104
Balance, end of period	**27,352,711**	**227,094**	**27,349,711**	**227,090**

17. Share-Based Compensation

The Company has established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan as at April 1, 2023 is 3,602,907 (April 2, 2022—3,602,457). Most options granted after 2013 have a five-year term, with one third of the options granted being exercisable one year after the date of issue, and the remainder exercisable in equal installments on the anniversary date over the next two years. Stock options granted after August 2019 vest over a two or three-year period, while all other outstanding options vest over the above-referenced three-year period. The vesting schedule was changed in fiscal 2020 to reward and retain plan participants. Each option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant and expenses this value over the vesting period. During fiscal 2023, the pre-forfeiture value of options granted was $0.8 million (2022—$1.7 million). The weighted average fair value of options issued in fiscal 2023 was $0.91 per option (2022—$1.85 per option).

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

	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Black-Scholes option pricing assumptions		
Risk-free interest rate	3.8%	0.5%
Expected volatility	66.2%	77.3%
Expected time until exercise	2.5 years	2.5 years
Expected dividend yield	–	–
Other assumptions		
Forfeiture rate	24.3%	25.1%

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

	52-week period ended April 1, 2023		52-week period ended April 2, 2022	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	2,906,550	6.38	2,375,475	7.90
Granted	932,500	2.09	920,000	4.05
Forfeited	(422,300)	9.81	(85,725)	4.74
Expired	(222,000)	16.14	(227,450)	17.23
Exercised	(3,000)	1.00	(75,750)	1.00
Outstanding options, end of period	3,191,750	4.12	2,906,550	6.38
Options exercisable, end of period	2,000,000	5.00	1,664,700	8.84

A summary of options outstanding and exercisable is presented below:

	As at April 1, 2023				
	Outstanding			Exercisable	
Range of exercise prices C$	Number #	Weighted average exercise price C$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C$
1.00–1.53	617,500	1.00	2.2	617,500	1.00
1.54–2.81	860,000	2.06	4.6	–	–
2.82–4.14	466,250	3.98	3.2	313,750	3.98
4.15–5.47	435,000	4.32	3.2	255,750	4.32
5.48–14.75	813,000	8.65	1.1	813,000	8.65
1.00–14.75	3,191,750	4.12	2.9	2,000,000	5.00

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 April 1, 2023 is $3.2 million (April 2, 2022—$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. The fair value of the cash-settled DSUs is equal to the grant date closing price of the Company's common shares on the Toronto Stock Exchange, and subsequently remeasured to the closing price of the shares on the last trading date of the reporting period. All changes to the fair value of the cash-settled DSUs are recorded in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

All Directors' compensation during the 52-week period ended April 1, 2023 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2022—all cash-settled DSUs with the exception of cash awards of less than $0.1 million).

The Company issued 307,547 cash-settled DSUs with a value of $0.7 million during the year (2022—73,043 cash-settled DSUs with a value of $0.3 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 April 1, 2023 is $0.8 million (April 2, 2022—$0.1 million). During the 52-week period ended April 1, 2023, the Company recorded a change of $0.2 million to the fair value of cash-settled DSU obligations (April 2, 2022—no material change).

18. Supplementary Operating Information

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Print[1]	548,506	569,542
General merchandise[2]	466,407	440,748
Other[3]	42,827	51,960
Total	1,057,740	1,062,250

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, sublease revenue, Rakuten Kobo Inc. ("Kobo") revenue share and a one-time payment from Starbucks Coffee Canada, Inc. ("Starbucks").

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Superstores[1]	652,992	595,498
Small format stores[1]	108,835	93,081
Online (including store kiosks)	253,086	321,711
Other[2]	42,827	51,960
Total	1,057,740	1,062,250

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, sublease revenue, Kobo revenue share and a one-time payment from Starbucks.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Wages, salaries, and bonuses	179,727	185,026
Short-term benefits expense	19,499	20,916
Termination benefits expense	7,597	3,534
Retirement benefits expense	2,079	1,902
Share-based compensation	846	864
Total employee benefits expense	209,748	212,242

Termination benefits arise when the Company terminates certain employment agreements.

In the prior year, the Company recognized payroll subsidies from the COVID-19 Canada Emergency Wage Subsidy ("CEWS") of $2.3 million and rent subsidies from the Canada Emergency Rent Subsidy ("CERS") of $2.9 million. Both programs ended in fiscal 2022. The Company did not qualify for subsidies under any newly introduced programs in the 52-week period ended April 1, 2023.

In the current year, the Company was granted $3.5 million from the Canadian Minister of Heritage from the Canada Book Fund, which supports access to a diverse range of Canadian-authored books nationally and internationally, by fostering a strong book industry that publishes and markets Canadian-authored books. Of this amount, $3.1 million was recorded against the associated eligible expenses in cost of sales, cost of operations and selling, general and administrative expenses. The remaining $0.4 million was net against intangible asset additions.

Contingent rents recognized as an expense during fiscal 2023 were $2.3 million (2022—$1.5 million).

19. 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 does not result in an adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the periods presented is as follows:

	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Weighted average number of common shares outstanding, basic	**27,814,444**	27,771,387
Effect of dilutive securities—stock options	**—**	507,959
Weighted average number of common shares outstanding, diluted	**27,814,444**	28,279,346

For the 52-week period ended April 1, 2023, the Company's stock options were anti-dilutive as the Company reported a loss, and therefore were not included in the diluted loss per share calculations. For the comparative period ended April 2, 2022, 2,411,050 anti-dilutive stock options were excluded from the computation of diluted net earnings per common share.

20. Statements of Cash Flows

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Accounts receivable	**(1,128)**	10,035
Inventories	**29,786**	(58,735)
Prepaid expenses	**6,678**	(1,230)
Other assets	**1,992**	(1,126)
Accounts payable and accrued liabilities (current and long-term)	**(8,339)**	31,923
Unredeemed gift card liability	**4,234**	4,600
Provisions (current and long-term)	**1,556**	(2,018)
Deferred revenue	**(570)**	4,213
Net change in non-cash working capital balances	**34,209**	(12,338)

21. Capital Management

The Company's main objectives when managing capital are:

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

There were no changes to these objectives during the fiscal year. The primary activities engaged in by the Company to generate attractive returns for shareholders include refining its assortment of thoughtfully curated merchandise, developing Indigo's store of the future, reimagining Indigo's digital presence, enhancing customer connections, fostering high-performing teams and generating profitable growth. The Company's main sources of capital include its current cash position and cash flows generated from operations and financing activities. In fiscal 2023, the Company entered into a secured revolving credit facility of $25.0 million with the purpose of allowing the Company to manage the seasonal nature of cash flows in the most effective manner. The non-interest bearing facility matured on February 1, 2023. Subsequent to year end, the Company received a binding commitment with respect to a revolving line of credit facility with Trilogy Retail Holdings Inc. ("Trilogy"), as lender (the "Credit Facility"). The Credit Facility will supplement the Company's liquidity in fiscal 2024. For additional information on the Credit Facility, see note 24 "Subsequent Events".

22. Financial Instruments and Risk Management

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

Foreign Exchange Risk

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

The Company uses derivative instruments in the form of forward contracts to manage its exposure to fluctuations in U.S. dollar exchange rates. As the Company has hedged a portion of the cost of its near-term forecasted U.S. dollar purchases, these costs would not be impacted by a change in foreign currency rates.

In fiscal 2023, the effect of foreign currency translation on other comprehensive income (loss) was a loss of $0.2 million (2022—gain of below $0.1 million), and the effect of foreign currency transactions on net earnings (loss) was a gain of $2.4 million (2022—gain of $0.2 million).

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash and cash equivalents.

As at April 1, 2023, the Company did not have any outstanding debt. The Company's indebtedness under the Credit Facility will expose the Company to additional risks associated with fluctuating interest rates. Required interest payments will create financial risks including the need to divert funds identified for other purposes, which could create additional cash demands and impact the Company's liquidity position. If the Company cannot generate sufficient cash flow from operations to service outstanding debt, it may be required to obtain the necessary funds through refinancing, disposing of assets, reducing expenditures, issuing equity, or other means. The current market volatility may adversely impact interest rates in the future, as well as the Company's ability to borrow under the Credit Facility.

Receivable Credit Risk

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

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

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

Commodity Price Risk

The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, in its commitments to invest in information technology and digital infrastructure, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company.

Management continually assesses its purchasing and operating practices to try and mitigate some of these fluctuations.

Indigo Credit Risk

The Company is exposed to operational risk from the adverse impact of fluctuations in its own credit rating, which may hinder its ability to negotiate commercially favourable purchase terms and debt facilities.

The credit agreements in respect of the Credit Facility will contain certain covenants, requirements and other terms that could impact, or have the potential to impact, the Company's business.

The degree of leverage held by the Company could negatively impact the Company's operations, through increased cash expense associated with interest, exposing the Company to debt capital market risk including interest rate risks, limiting the ability to obtain other forms of financing, and restricting flexibility of discretion over the operations of the business, amongst others.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet a demand for cash or fund its obligations as they come due. Liquidity risk is managed by continuously monitoring actual and projected cash flows to ensure that the Company has sufficient funds to meet its financial obligations and fund new business opportunities or other unanticipated requirements as they arise.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, it is expected that the Company's current cash position and future cash flows generated from operations and financing activities will be sufficient to meet its working capital requirements for fiscal 2024. The Credit Facility will also supplement the liquidity. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by the risks discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity and reduce capital spending if necessary. However, the current macro-economic environment continues to create a number of additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company.

The contractual maturities of the Company's current and long-term liabilities as at April 1, 2023 are as follows:

(thousands of Canadian dollars)	Payments due in the next 90 days	Payments due between 90 days and less than a year	Payments due after 1 year	Total
Accounts payable and accrued liabilities	157,929	11,931	–	169,860
Provisions	578	1,301	–	1,879
Short-term lease liabilities	17,237	51,924	–	69,161
Long-term accrued liabilities	–	–	1,007	1,007
Long-term provisions	–	–	851	851
Long-term lease liabilities	–	–	428,284	428,284
Total	**175,744**	**65,156**	**430,142**	**671,042**

23. Related Party Transactions

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, subsidiaries and, in prior years, equity investments in associates. Unless otherwise noted, 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)	52-week period ended April 1, 2023	52-week period ended April 2, 2022
Wages, salaries, and bonuses	6,898	8,018
Short-term benefits expense	737	546
Termination benefits expense	860	–
Retirement benefits expense	70	62
Share-based compensation	397	784
Directors' compensation	696	162
Total remuneration	**9,658**	9,572

Transactions with Shareholders

During fiscal 2023, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2023, the Company paid $0.3 million for these transactions (2022—$0.4 million). As at April 1, 2023, Indigo had nominal amounts payable to these companies under standard payment terms (April 2, 2022—nominal amounts payable). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

During the first quarter of fiscal 2023, the Company entered into a secured revolving credit facility of $25.0 million with a company controlled by Mr. Gerald W. Schwartz. The non-interest bearing facility was issued on favourable commercial terms to Indigo. The facility was put in place in response to uncertainty surrounding the macro-economic environment, with its purpose to allow the Company to manage the seasonal nature of cash flows in the most effective manner. During the second quarter of fiscal 2023, $20.0 million was drawn from the facility. An incremental amount of $5.0 million was drawn in the third quarter of fiscal 2023, with the entire outstanding balance of $25.0 million being repaid in the same quarter. The non-interest bearing facility matured on February 1, 2023.

Subsequent to April 1, 2023, the Company received a binding commitment with respect to a revolving line of credit facility with Trilogy as lender, a Company controlled by Mr. Gerald W. Schwartz. For additional information, see note 24 "Subsequent Events".

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 18 "Supplementary Operating Information". The Company has not entered into other transactions with the retirement plan.

Transactions with Associates

During the second quarter of fiscal 2023, the Company sold its equity investment in Unplug for proceeds of $0.3 million, resulting in a gain on disposition of $0.2 million. The Company had immaterial transactions with Unplug during the 52-week periods ended April 1, 2023 and April 2, 2022.

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

24. Subsequent Events

On June 27, 2023, the Company received a binding commitment with respect to a revolving line of credit facility with Trilogy, as lender. Trilogy is controlled by Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo. The Credit Facility is for an aggregate principal amount of up to $45.0 million and, with the consent of Trilogy, the amount may be increased by up to $10.0 million. The Credit Facility, which matures on December 31, 2023, has an interest rate of the Royal Bank of Canada prime rate +1%, and will be used to finance the seasonal working capital and operational needs of the Company. It will be issued on reasonable commercial terms, and will not be convertible, directly or indirectly, into equity or voting securities. The Credit Facility will be subject to the terms and conditions of the credit agreement anticipated to be entered into between the Company and Trilogy on or before July 31, 2023.

corporate governance policies

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

executive management and board of directors

As at June 27, 2023

Executive Management

Heather Reisman
Executive Chair

Peter Ruis
Chief Executive Officer

Andrea Limbardi
President

Gildave (Gil) Dennis
Chief Operating Officer

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

Katharine Poulter
Chief Commerical Officer

Daniel Marcotte
Interim Chief Technology and
Information Officer

Board of Directors

Jonathan Deitcher
Investment Advisor
RBC Dominion Securities Inc.

Mitchell Goldhar
Executive Chairman and Chief Executive Officer
SmartCentres REIT and
Owner
Penguin Group of Companies

Robert Haft
Managing Partner
Morgan Noble Healthcare Partners

Andrea Johnson
Chief Executive Officer
Rally Reader, LLC

Donald Lewtas
Corporate Director

Heather Reisman
Executive Chair
Indigo Books & Music Inc.

Peter Ruis
Chief Executive Officer
Indigo Books & Music Inc.

Gerald Schwartz
Chairman
Onex Corporation

Joel Silver
Founder and Consultant
Polar Growth Partners, LLC

five-year summary of financial information

For the years ended (financial information in millions of Canadian dollars, except per share data)	April 1, 2023[1]	April 2, 2022[1]	April 3, 2021[1]	March 28, 2020[1]	March 30, 2019
SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	653.0	595.5	439.8	655.8	711.4
Small format stores	108.8	93.1	72.6	122.1	144.8
Online	253.1	321.7	370.0	162.7	175.9
Other	42.8	52.0	22.3	17.1	14.7
Total revenue	1,057.7	1,062.3	904.7	957.7	1,046.8
Adjusted EBITDA[2]	(20.5)	32.5	(28.3)	(7.3)	(19.1)
Earnings (loss) before income taxes	(49.8)	3.3	(56.9)	(100.3)	(49.6)
Net earnings (loss)	(49.6)	3.3	(57.9)	(185.0)	(36.8)
Net earnings (loss) per common share	$(1.78)	$0.12	$(2.09)	$(6.72)	$(1.35)
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	4.1	58.3	46.1	85.2	164.1
Total assets	738.1	809.4	799.5	883.0	610.5
Total liabilities	758.1	781.5	776.9	799.0	240.3
Total equity (deficit)	(20.0)	27.8	22.6	84.0	370.1
Weighted average number of common shares outstanding, basic	27,814,444	27,771,387	27,664,268	27,515,109	27,354,358
Common shares outstanding at end of period	27,352,711	27,349,711	27,273,961	27,273,961	27,136,386
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	87	88	88	88	89
Small format stores	84	85	89	108	115
Selling square footage at end of period (in thousands)					
Superstores	2,044	1,941	1,941	1,941	1,962
Small format stores	235	222	231	279	287
Sales per selling square foot					
Superstores	319	307	227	338	363
Small format stores	463	419	314	438	504

1 The Company implemented IFRS 16 *Leases* in fiscal 2020 using the modified retrospective approach. As a result, the Company's fiscal 2020 and onward results reflect lease accounting under IFRS 16 *Leases*, while the prior years have not been restated.

2 In fiscal 2021, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. This represents a change in calculation methodology from the prior fiscal year. Fiscal 2020 has been consistently stated, while other fiscal periods prior to the implementation of IFRS 16 *Leases*, have not been restated.
For further information, see "Non-IFRS Financial Measures" in the Company's MD&A section of the Annual Report.

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Stock Listing

Toronto Stock Exchange

Trading Symbol

IDG

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Website: www.tsxtrust.com

Auditors

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Toronto, Ontario
Canada M5H 0B3

Annual Meeting

The 2023 Annual Meeting of Shareholders of Indigo Books & Music Inc. will be held on August 22, 2023 at 10:00 a.m. via live audio webcast at:
https://virtual-meetings.tsxtrust.com/1522

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Indigo's commitment to communities across Canada

The Company supports a separate registered charity, called the Indigo Love of Reading Foundation (the "Foundation"), which is committed to addressing educational inequality, and more specifically, the literacy crisis in Canada. The Foundation runs annual national granting programs such as the Literacy Fund Grant, which is a multi-year grant provided to high-needs schools across the country; and the Adopt a School program, a grassroots fundraising initiative that unites Indigo, its retail stores, Indigo's staff, local schools, and their communities. In addition, the Foundation provides resources including new books and learning materials, training and year-round curation support to help ensure teachers, education staff, school administrators and other key stakeholders have the tools they need to promote literacy in their communities. With the support of the Company, its customers, employees, and suppliers, the Foundation has committed over $35.0 million to more than 1,000,000 students across Canada since 2004. The Foundation is dedicated to giving back to communities in need, while at the same time raising awareness about the critical importance of children's literacy in Canada.

our beliefs

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

We are proud to be a company that supports our customers to live their 'life, on purpose'. Through stories and ideas we inspire connection.

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