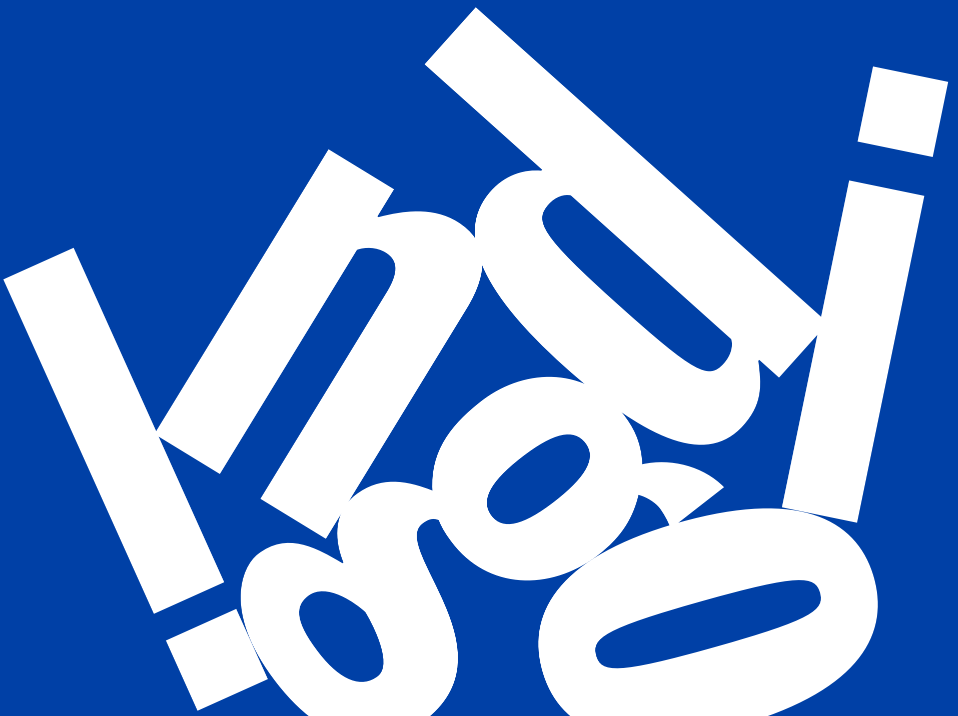
THIRD QUARTER REPORT
FOR THE 13 AND 39-WEEK PERIODS ENDED DECEMBER 31, 2022

Indigo



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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 9, 2023 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13 and 39-week periods ended December 31, 2022 and January 1, 2022. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." Except as otherwise noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2022 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes contained in this Quarterly Report, the audited annual consolidated financial statements and accompanying notes for the 52-week period ended April 2, 2022 and the MD&A included in the Company's fiscal 2022 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

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

general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

The unaudited interim condensed consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ").

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

Statement on COVID-19

On March 11, 2020, the outbreak of COVID-19 was declared a pandemic by the World Health Organization. The Company, and the retail industry, continue to navigate the impacts of the COVID-19 pandemic, 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 the first three quarters of 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 quarter of the prior year.

Year-to-date, the Company recognized $1.0 million of external COVID-19 support, all in the form of occupancy expense abatement. In the first three quarters of the prior year, the Company recognized $10.7 million of external COVID-19 support; $5.4 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 refer to the risks described in the "Risks and Uncertainties" section of the Company's fiscal 2022 Annual Report.

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

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 31, 2022 and January 1, 2022.

(millions of Canadian dollars)	**13-week period ended December 31, 2022**	**% Revenue**	13-week period ended January 1, 2022	% Revenue	**39-week period ended December 31, 2022**	**% Revenue**	39-week period ended January 1, 2022	% Revenue
Revenue	**422.7**	**100.0**	430.7	100.0	**863.5**	**100.0**	841.6	100.0
Cost of sales	**(256.0)**	**60.6**	(252.4)	58.6	**(519.6)**	**60.2**	(482.9)	57.4
Cost of operations	**(78.4)**	**18.5**	(80.0)	18.6	**(198.9)**	**23.0**	(186.6)	22.2
Selling, general and administrative expenses	**(31.0)**	**7.3**	(32.7)	7.6	**(83.8)**	**9.7**	(79.3)	9.4
Depreciation of right-of-use assets	**(10.2)**	**2.4**	(7.5)	1.7	**(31.2)**	**3.6**	(26.7)	3.2
Finance charges related to leases	**(6.3)**	**1.5**	(6.1)	1.4	**(19.0)**	**2.2**	(18.6)	2.2
Adjusted EBITDA[1]	**40.8**	**9.7**	52.0	12.1	**11.0**	**1.3**	47.5	5.6
Depreciation of property, plant and equipment	**(4.0)**	**0.9**	(4.0)	0.9	**(11.9)**	**1.4**	(12.0)	1.4
Amortization of intangible assets	**(1.6)**	**0.4**	(2.8)	0.7	**(7.5)**	**0.9**	(9.3)	1.1
Loss on disposal of capital assets	**–**	**–**	–	–	**(0.1)**	**0.0**	–	–
Gain on disposal of equity investment	**–**	**–**	–	–	**0.2**	**0.0**	–	–
Net interest income	**0.3**	**0.1**	0.1	0.0	**0.7**	**0.1**	0.5	0.1
Earnings (loss) before income taxes	**35.6**	**8.4**	45.2	10.5	**(7.6)**	**0.9**	26.7	3.2

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

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

Revenue

Total consolidated revenue for the 13-week period ended December 31, 2022 decreased by $8.0 million or 1.9% to $422.7 million from $430.7 million for the 13-week period ended January 1, 2022. The reduction in sales reflects the impact of the current macro-economic environment on consumer behaviour, most heavily felt at the beginning of the quarter. These headwinds had reduced impact from Black Friday onwards, when the Company generated sales growth compared to the prior year, exemplifying Indigo's brand strength and position as a key gifting destination.

The Company's general merchandise business delivered growth of 3% in the 13-week period ended December 31, 2022, compared to the same period last year, demonstrating the ongoing success of an evolving product assortment. Double-digit growth was achieved in the baby, toys and wellness categories. The print business declined by 6% compared to the prior year, but exceeded sales in the third quarter ended December 28, 2019 ("the comparable pre-pandemic period").

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $8.0 million or 2.7% to $306.1 million for the 13-week period ended December 31, 2022 compared to $298.1 million in the same period last year. This was driven by strong holiday demand, which drove December retail sales above the prior year. The channel also delivered a record-breaking Boxing week.[1] While traffic remained below pre-pandemic levels, it continued to rebound and was higher than the prior year, most notably when compared to periods impacted by Omicron capacity constraints.

Online revenue decreased by $15.0 million or 12.3% to $107.0 million for the 13-week period ended December 31, 2022 compared to $122.0 million in the same period last year. This decline was largely a result of a shift in channel mix as the retail network recovered from last years' Omicron capacity constraints.

[1] Historical data referencing 2013 onwards.

While there was a decline to the same period last year, the online channel has sustained sales at 63% to pre-pandemic levels and continues to be a strategic lever of growth for the Company. Consistent with the strength noted in the retail network, the online channel was stronger in the second half of the quarter and delivered record-breaking demand on Black Friday. With an evolved product assortment and renewed customer experience, traffic and average order values increased year-over-year.

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 the 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 by $1.0 million or 9.4% to $9.6 million for the 13-week period ended December 31, 2022 compared to $10.6 million for the same period last year due to moderated growth in the membership base of the paid tier of the Company's loyalty program.

On a fiscal year-to-date basis, total consolidated revenue increased by $21.9 million or 2.6% to $863.5 million compared to $841.6 million for the same period last year. The Company's year-to-date sales growth was generated in the first half of the year, fueled by high customer demand and the success of Indigo's omnichannel business. The retail channel had a strong recovery, generating growth of $72.4 million compared to the prior year. Against the rebounding retail channel, the Company noted a decline of $37.9 million in online sales, however the channel sustained incremental growth of 72% to the comparable pre-pandemic period. This sales growth was partially offset by softened demand in the third quarter, reflecting changes to consumer behaviour in response to the current macro-economic environment. Note, year-to-date sales in the prior year also benefited from a one-time payment of $17.0 million from the renegotiation of the Company's partnership with Starbucks Coffee Canada, Inc. ("Starbucks").

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	% increase (decrease)
Superstores[1]	**262.4**	257.2	2.0
Small format stores[1]	**43.7**	40.9	6.8
Online (including store kiosks)	**107.0**	122.0	(12.3)
Other[2]	**9.6**	10.6	(9.4)
Total	**422.7**	430.7	(1.9)

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

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

Revenue by product line is as follows:

	13-week period ended December 31, 2022	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Print[1]	**46.3%**	48.3%	**51.0%**	52.6%
General merchandise[2]	**51.5%**	49.2%	**45.5%**	42.3%
Other[3]	**2.2%**	2.5%	**3.5%**	5.1%
Total	**100.0%**	100.0%	**100.0%**	100.0%

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

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

3 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, Kobo revenue share, 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 $3.6 million to $256.0 million for the 13-week period ended December 31, 2022, compared to $252.4 million for the same period last year. As a percent of total revenue, cost of sales increased to 60.6% compared to 58.6% for the same period last year.

Excluding the impact of online shipping costs, cost of sales increased by $3.4 million to $233.2 million for the 13-week period ended December 31, 2022, compared to $229.8 million for the same period last year. As a percentage of total revenue, cost of sales excluding the impact of online shipping costs increased to 55.2% compared to 53.4%. Cost of sales was negatively impacted by the current macro-economic environment, including the inflationary impact on the cost of inventories and an incremental $1.2 million in overseas freight caused by ongoing global supply chain disruptions. The penetration of discounts increased

compared to the prior year, when the Company had elevated full-priced sell through, which negatively impacted cost of sales as a percentage of total revenue. These macro-economic conditions were partially offset by the continued rebound of the retail channel, which typically has a higher margin profile.

Online shipping costs increased by $0.2 million to $22.8 million for the 13-week period ended December 31, 2022, compared to $22.6 million for the same period last year due to the elevated cost of fuel and associated surcharges from delivery carriers.

On a fiscal year-to-date basis, cost of sales increased by $36.7 million to $519.6 million compared to $482.9 million for the same period last year. Year-to-date cost of sales as a percent of total revenue increased to 60.2% compared to 57.4% in the same period last year.

Excluding the impact of online shipping costs, cost of sales increased by $37.2 million to $475.3 million for the 39-week period ended December 31, 2022, compared to $438.1 million for the same period last year. As a percent of total revenue, cost of sales excluding the impact of online shipping costs increased to 55.0% compared to 52.1%. Cost of sales was negatively impacted by the macro-economic environment as discussed above, including $6.3 million of year-to-date incremental freight costs as a result of ongoing global supply chain disruptions. Other inflationary pressures continued to negatively impact cost of sales, including the increasing cost of inventory, and a greater penetration of promotions. 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 percentage of total revenue. This was partially offset by the continued rebound of the retail channel, which typically has a higher margin profile, and a one-time adjustment related to the settlement of aged payables.

Online shipping costs decreased by $0.5 million to $44.3 million for the 39-week period ended December 31, 2022, compared to $44.8 million for the same period last year. While the increased cost of fuel has impacted the variable cost of shipping, the absolute cost has decreased compared to the prior year, driven by the tempered demand year-to-date in the online channel.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased by $1.6 million to $78.4 million for the 13-week period ended December 31, 2022, compared to $80.0 million for the same period last year. As a percent of total revenue, cost of operations decreased to 18.5%, compared to 18.6% in the prior year. The decrease in cost

of operations was driven by a reduction in labour costs incurred in the retail network, furthered by lower online volume costs from softened demand in the channel. The Company received a grant from the Canada Book Fund which is administered by the Minister of Canadian Heritage ("Canada Book Fund"), of which $2.5 million was recognized against cost of operations, primarily against expenses incurred to improve technological tools related to the sales of printed books online. This was partially offset by additional labour costs in the online channel, incurred to support advances to the Company's digital platforms. The Company also recognized no external COVID-19 support in cost of operations in the quarter, compared to $2.8 million in occupancy abatement in the same period last year.

On a fiscal year-to-date basis, cost of operations increased by $12.3 million to $198.9 million compared to $186.6 million for the same period last year. Year-to-date cost of operations as a percent of total revenue increased to 23.0% compared to 22.2% for the same period last year. This increase was driven by labour costs incurred to support technological advances to the online channel. The Company also had a reduction in grants and external COVID-19 support recognized in cost of operations, which totaled $3.5 million in the 39-week period ended December 31, 2022, compared to $8.4 million in the same period last year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses decreased by $1.7 million to $31.0 million for the 13-week period ended December 31, 2022, compared to $32.7 million for the same period last year. As a percent of total revenue, selling, general and administrative expenses decreased to 7.3%, compared to 7.6% for the same period last year. The Company was a recipient of a grant from the Canada Book Fund, of which $1.0 million was recognized against selling, general and administrative expenses, to support the promotion and marketing of online sales of Canadian-authored books.

On a fiscal year-to-date basis, selling, general and administrative expenses increased by $4.5 million to $83.8 million compared to $79.3 million in the same period last year. Year-to-date selling, general and administrative expenses as a percent of total revenue increased to 9.7%, compared to 9.4% for the same period last year. The Company incurred additional strategic spending on marketing initiatives, after a dampened marketing program during the pandemic, as well as additional investments in technology advances aimed at maintaining the momentum of the online channel. The Company recognized no external COVID-19 support in selling, general and administrative expenses in the

39-week period ended December 31, 2022, compared to $2.2 million in the same period last year. This was partially offset by the above discussed granted amount from the Canada Book Fund.

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 $2.9 million to $16.5 million for the 13-week period ended December 31, 2022, compared to $13.6 million for the same period last year. Lease modifications recognized in the prior year resulted in a lower third quarter amortization balance; which is driving the year-over-year variance. The current period amortization is more reflective of a normalized expense.

On a fiscal year-to-date basis, lease charges increased by $4.9 million to $50.2 million compared to $45.3 million in the same period last year, for the same reason discussed above.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA decreased by $11.2 million to $40.8 million for the 13-week period ended December 31, 2022, compared to $52.0 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, decreased to 9.7% this quarter, compared to 12.1% for the same period last year. Lower Adjusted EBITDA was driven by a top-line decline, reflecting the impact of the current macro-economic environment. These headwinds also had a negative impact on costs, including a higher cost of inventory, additional shipping fees and $1.2 million of incremental international freight. A higher penetration of promotions, compared to the prior year when the Company had elevated full-priced sell through, also negatively impacted Adjusted EBITDA as a percentage of total revenue. Additional costs were incurred on enabling infrastructure to support a modernized ecommerce technology, furthered by additional amortization of the Company's right-of-use assets, impacted by lease modifications recognized in the prior year.

On a fiscal year-to-date basis, Adjusted EBITDA decreased by $36.5 million to $11.0 million compared to $47.5 million in the same period last year. Year-to-date Adjusted EBITDA as a percent of total revenue decreased to 1.3%, compared to 5.6% for the same period last year. In the prior year, the Company benefited from a one-time payment of $17.0 million from the renegotiation of the Company's partnership with Starbucks, as well as $10.7 million of external COVID-19

support, compared to $4.5 million in government grants and external COVID-19 support in the current year. The decline was furthered by an increase in costs, including $6.3 million of year-to-date incremental freight and the elevated cost of inventory, which adversely impacted Adjusted EBITDA. Additional strategic spending was incurred for technology advances, aimed at maintaining the momentum of the online channel, as well as additional amortization of the Company's right-of-use assets. Together, these offset the year-to-date top-line growth generated.

A reconciliation of Adjusted EBITDA to earnings (loss) before income taxes has been included in the "Results of Operations" section of this MD&A.

Capital Assets

Depreciation and amortization of capital assets, excluding right-of-use assets, for the 13-week period ended December 31, 2022 decreased by $1.2 million to $5.6 million compared to $6.8 million for the same period last year, a result of intangible assets reaching full amortization in the prior year. Capital expenditures in the quarter totaled $6.0 million compared to $2.6 million for the same period last year, and were primarily to support the Company's strategic plans for ecommerce growth. Capital expenditures included $5.7 million for digital application software and internal development costs and $0.6 million for technology equipment. Capital expenditures for furniture, fixtures, equipment and leasehold improvements were in a net return position of $0.4 million, reflecting the receipt of lease incentives in the quarter. None of the capital expenditures were financed through leases.

On a fiscal year-to-date basis, depreciation and amortization decreased by $1.9 million to $19.4 million compared to $21.3 million in the same period last year, for the same reason discussed above. Year-to-date, the Company spent $21.4 million on capital expenditures compared to $9.3 million in the prior year. Capital expenditures for the current year included $19.0 million for digital application software and internal development costs; $1.4 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances; and $1.0 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, remained relatively constant, increasing $0.2 million to $0.3 million for the 13-week period ended December 31, 2022, compared to $0.1 million for the same period last

year, due to higher market interest rates in the current period. The Company nets interest income against interest expense.

On a fiscal year-to-date basis, net interest income increased $0.2 million to $0.7 million compared to $0.5 million in the same period last year, for the same reason discussed above.

Income Taxes

The Company recognized a non-cash deferred income tax expense of $1.3 million for the 13-week period ended December 31, 2022, compared to a non-cash deferred income tax expense of below $0.1 million for the same period last year, impacted by the movement in cash flow hedges. Since the onset of the COVID-19 pandemic, the Company has not recognized deferred tax assets in the reported periods, influenced by uncertainty surrounding the macro-economic environment.

On a fiscal year-to-date basis, the Company recognized a non-cash deferred income tax recovery of $0.6 million compared to a non-cash deferred income tax recovery of below $0.1 million in the same period last year, for the same reason discussed above.

The Company used a statutory income tax rate of 26.3% for the quarter and year-to-date, and 26.5% in the same periods last year. The Company does not expect to pay cash income taxes for the current year.

Net Earnings (Loss)

The Company recognized net earnings of $34.3 million for the 13-week period ended December 31, 2022 ($1.23 net earnings per common share), compared to net earnings of $45.1 million ($1.62 net earnings per common share) for the same period last year, a change of $10.8 million. The decrease in net earnings was partially a result of softer demand, which led to a slight top-line decline this quarter compared to the same period last year. The effects of the current macro-economic environment extended past revenue, and also had an adverse impact on costs. The Company incurred increased cost of inventory, incremental international freight and a higher penetration of promotions, compared to the prior year when the Company had elevated full-priced sell through. Net earnings in the period were further impacted by additional investment made on enabling infrastructure, to support modernized ecommerce technology.

On a fiscal year-to-date basis, the Company recognized a net loss of $7.1 million ($0.25 net loss per common share), compared to net earnings of $26.7 million ($0.96 net earnings per common share) in the same period last year, a change of $33.8 million. Net earnings in the prior year benefited from

a one-time payment of $17.0 million from the renegotiation of the Company's partnership with Starbucks, as well as $10.7 million of external COVID-19 support, compared to $4.5 million in government grants and external COVID-19 support in the current year. While the Company delivered higher sales, the current macro-economic environment had a negative impact on costs, including higher cost of inventories and $6.3 million of year-to-date incremental freight, amongst other inflationary pressures. This was furthered by the Company's increased strategic investment in its ecommerce technology, aimed at building on the momentum generated over the past three years.

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 have been designated as cash flow hedges for accounting purposes and extend over a period not exceeding 12 months.

During the 13-week period ended December 31, 2022, the Company did not enter into any new contracts to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$55.5 million in the prior year. On a fiscal year-to-date basis, the Company entered into contracts with total notional amounts of C$78.6 million, compared to entering into contracts with total notional amounts of C$142.4 million in the same period last year.

As at December 31, 2022, the Company had remaining contracts in place representing total notional amounts of C$36.5 million and an unrealized net gain of $2.1 million, compared to total notional amounts of C$84.9 million and an unrealized net gain of $0.2 million as at January 1, 2022.

During the 13 and 39-week periods ended December 31, 2022, the Company had net losses (net of taxes) of $1.1 million and net gains (net of taxes) of $5.7 million, respectively, from the change in fair value of outstanding cash flow hedges, compared to net losses (net of taxes) of $0.1 million and net gains (net of taxes) of $0.1 million in the same respective periods last year. The Company reclassified net gains (net of taxes) of $1.3 million and $2.3 million, from settled contracts out of other comprehensive income to inventory and expenses during the 13 and 39-week periods ended December 31, 2022, compared to immaterial reclassified

net gains (net of taxes) and net losses (net of taxes) of $1.6 million in the same respective periods last year.

During the 13-week period ended December 31, 2022, the Company terminated certain derivative instruments and consequently, hedge accounting was discontinued. A gain of $1.2 million (net of taxes) was reclassified out of other comprehensive income and recognized in earnings concurrently with the related hedged transactions, which also occurred during the quarter.

The Company also recognized other comprehensive income of $0.1 million and other comprehensive losses of $0.2 million in the 13 and 39-week periods ended December 31, 2022 from foreign currency translation adjustments on consolidation of its foreign subsidiaries, compared to other comprehensive income of $0.2 million and $0.3 million in the same respective periods last year.

This resulted in an other comprehensive loss of $3.5 million and other comprehensive income of $2.0 million for the 13 and 39-week periods ended December 31, 2022, compared to other comprehensive income of $0.1 million and $2.1 million for the same respective periods in the prior year.

Seasonality and Third Quarter Results

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

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

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q3 Fiscal 2023**	Q2 Fiscal 2023	Q1 Fiscal 2023	Q4 Fiscal 2022	Q3 Fiscal 2022	Q2 Fiscal 2022	Q1 Fiscal 2022	Q4 Fiscal 2021
Revenue	**422.7**	236.2	204.6	220.7	430.7	238.8	172.1	199.0
Net earnings (loss)	**34.3**	(15.9)	(25.4)	(23.4)	45.1	3.5	(21.9)	(39.5)
Basic earnings (loss) per common share	**$1.23**	$(0.57)	$(0.91)	$(0.84)	$1.62	$0.13	$(0.79)	$(1.42)
Diluted earnings (loss) per common share	**$1.22**	$(0.57)	$(0.91)	$(0.84)	$1.60	$0.13	$(0.79)	$(1.42)

Overview of Consolidated Balance Sheets

Assets

As at December 31, 2022, total assets decreased by $9.9 million to $906.6 million, compared to $916.5 million as at January 1, 2022. The change was driven by decreases in cash and cash equivalents and capital assets, partially offset by increases in inventories and accounts receivables. Cash and cash equivalents decreased by $39.9 million, primarily driven by capital investment made in digital infrastructure. This was furthered by changes in working capital, with an increased receivables balance, and the year-to-date loss recognized. While investment was made in digital infrastructure, capital assets had a net decrease of $24.7 million, driven by depreciation on property, plant and equipment and right-of-use assets that outpaced capital investment and lease modifications. This was partially offset by an increase in inventories of $42.6 million. In the prior year, the Company took a measured inventory purchasing approach in response to uncertainty surrounding the impact of COVID-19 on consumer behaviour. This year, in anticipation of growth in the general merchandise business line, to expand its core product assortment and to mitigate supply chain risks, the Company increased inventory levels in advance of the holiday sales season. Macro-economic conditions negatively impacted sales in the quarter, with reduced demand, which led to a higher ending inventory balance. This was compounded by the inflationary impact on product costs. Accounts receivables increased by $11.5 million, driven by high sales volumes in the last few days of the quarter.

On a fiscal year-to-date basis, total assets increased by $97.2 million to $906.6 million compared to $809.4 million as at April 2, 2022. The change was primarily driven by increases in cash and cash equivalents, inventories and accounts receivables, partially offset by decreased capital assets and prepaid expenses. Cash and cash equivalents increased by $63.5 million, driven by the generation of cash over the holiday sales season and partially offset by higher capital investment. Inventories and accounts receivables increased by $43.4 million and $16.8 million, respectively, consistent with the seasonal nature of the business and further impacted by the reasons discussed above. Capital assets had a net decrease of $22.7 million, driven by lower right-of-use asset and property, plant and equipment balances. This was offset by investments made in digital infrastructure in the year, to build on ecommerce momentum generated. Prepaid expenses decreased by $6.2 million, impacted by the timing of the quarter end.

Liabilities

As at December 31, 2022, total liabilities increased by $18.7 million to $883.2 million, compared to $864.5 million as at January 1, 2022. This change was driven by net increases in accounts payable and accrued liabilities, and unredeemed gift card liability, partially offset by net decreases in lease liabilities. Accounts payable and accrued liabilities had a net increase of $45.4 million, consistent with higher inventories and the timing of associated payments. Unredeemed gift card liabilities increased by $3.9 million driven by elevated activations on the recovery of the retail network. Lease liabilities had a net decrease of $30.4 million, which reflects the impact of principal and interest repayments over the past year, and lease modifications recognized.

On a fiscal year-to-date basis, total liabilities increased by $101.7 million to $883.2 million, compared to $781.5 million as at April 2, 2022. This change was driven by net increases in accounts payable and accrued liabilities, and unredeemed gift card liability, partially offset by net decreases in lease liabilities. The net increase in accounts payable and accrued liabilities of $111.6 million is consistent with the seasonal nature of the business, and furthered by the higher inventory levels discussed. Unredeemed gift card liabilities increased by $16.5 million after high gift card sales during the holiday sales season. Lease liabilities had a net decrease of $28.2 million, for the same reasons discussed above.

Equity

Total equity as at December 31, 2022 decreased by $28.6 million to $23.4 million, compared to $52.0 million as at January 1, 2022. The change in total equity was driven by the accumulated net loss recognized over the past four quarters.

On a fiscal year-to-date basis, total equity decreased by $4.4 million to $23.4 million as at December 31, 2022, compared to $27.8 million as at April 2, 2022. This was driven by the year-to-date net loss recognized, partially offset by the beneficial impact of the change in fair value of cash flow hedges to accumulated other comprehensive earnings.

The weighted average number of common shares outstanding for the third quarter of fiscal 2023 was 27,813,854 compared to 27,783,278 for the same period last year. As at February 9, 2023, the number of outstanding common shares was 27,352,711 with a book value of $227.1 million.

Working Capital and Leverage

The Company's working capital position usually declines from the end of its fiscal year until the third fiscal quarter due to the seasonal nature of the business. The Company relies on cash, accounts payable and its revolving line of credit to fund the business before generating a disproportionate amount of cash during the holiday sales season.

The Company reported working capital of $47.9 million as at December 31, 2022, compared to $83.4 million as at January 1, 2022 and $58.3 million as at April 2, 2022. The decrease in working capital compared to the same period last year was primarily driven by the discussed decrease in cash and cash equivalents and increase in net accounts payable, partially offset by increases in inventories.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $127.3 million for the 13-week period ended December 31, 2022 compared to $118.0 million in the same period last year. The change in the current period was driven by cash flows generated from operating activities of $172.3 million, partially offset by cash flows used for investing activities of $5.6 million and for financing activities of $37.8 million.

On a fiscal year-to-date basis, cash and cash equivalents increased $63.5 million, compared to an increase of $104.9 million in the same period last year. The change in the current period was driven by cash flows generated from operating activities of $139.1 million, partially offset by cash flows used for investing activities of $20.4 million and for financing activities of $53.7 million.

Cash Flows From Operating Activities

The Company generated cash flows of $172.3 million from operating activities in the 13-week period ended December 31, 2022 compared to generating cash flows of $137.7 million in the same period last year, a change of $34.6 million. This was primarily driven by an increase in cash generated from working capital of $41.9 million, partially offset by the $11.2 million decrease in Adjusted EBITDA compared to the prior year. The change in cash generated from working capital was driven by an elevated accounts payable balance, associated with the timing of payments. In response to softened demand at the beginning of the quarter, the Company also returned excess inventory and slowed down replenishments, which positively impacted working capital. This was partially offset by increased receivables, impacted by high sales in the last few days of the quarter.

On a fiscal year-to-date basis, the Company generated cash flows from operating activities of $139.1 million compared to generating cash flows of $163.2 million in the same period last year, a change of $24.1 million. This

was driven by the year-to-date decrease in Adjusted EBITDA of $36.5 million, partially offset by an increase of cash generated from working capital of $6.6 million, for the same reasons discussed above.

Cash Flows Used for Investing Activities

The Company used cash flows of $5.6 million for investing activities in the 13-week period ended December 31, 2022 compared to using cash flows of $2.5 million in the same period last year, a change of $3.1 million. This was driven by increased investment in modernized ecommerce technology after a conservative capital approach in the prior two years, which stemmed from uncertainty surrounding the COVID-19 pandemic.

On a fiscal year-to-date basis, the Company used cash flows of $20.4 million for investing activities compared to using cash flows of $8.2 million in the same period last year, a change of $12.2 million. The change was driven by the investment in ecommerce technology, as discussed above.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Furniture, fixtures, equipment, and leasehold improvements, net	**(0.4)**	0.2	**1.4**	1.0
Intangible assets (digital application software and internal development costs)	**5.7**	2.1	**19.0**	7.7
Technology equipment	**0.6**	0.3	**1.0**	0.6
Total	**6.0**	2.6	**21.4**	9.3

Cash Flows Used for Financing Activities

The Company used cash flows of $37.8 million for financing activities in the 13-week period ended December 31, 2022 compared to using cash flows of $16.4 million in the same period last year, a change of $21.4 million. This was driven by the repayment of the Company's revolving credit facility in the quarter, and furthered by higher repayments on the Company's IFRS 16 lease obligations.

On a fiscal year-to-date basis, the Company used cash flows for financing activities of $53.7 million, compared to $49.9 million in the prior year, a change of $3.8 million. The change was driven by higher repayments on the Company's IFRS 16 lease obligations.

Liquidity and Capital Resources

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

During the first quarter, the Company entered into a secured, revolving credit facility of $25.0 million to enhance its liquidity. The non-interest bearing facility was issued from a related party on favourable commercial terms to the Company. Amounts were drawn by the Company during the second and third quarters, totaling $25.0 million. The outstanding balance was repaid as at December 31, 2022.

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 revolving credit facility will be sufficient to meet its working capital requirements for fiscal 2023. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the COVID-19 pandemic and the current macro-economic environment, among others. The Company can seek to raise additional funding should a significant risk to liquidity arise and can reduce capital spending, if necessary. However, the current macro-economic environment may create a number of additional risks to obtaining such funding, such as the ability to access capital at a reasonable cost. Also, a long-term decline in capital expenditures may negatively impact the Company's revenue and earnings growth.

The Company had previously projected a cash and cash equivalents balance for the fiscal year ended April 1, 2023 to be higher than as at April 2, 2022. This was based on earnings projections that were made at the time, which have not been realized. Year-to-date earnings have been negatively impacted by softer than expected demand, elevated penetration of promotions and other inflationary pressures on costs. The Company now projects that it is unlikely for the cash and cash equivalents balance for the fiscal year ended April 1, 2023 to be higher than as at April 2, 2022.

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

Accounting Policies

Critical Accounting Judgments and Estimates

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

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

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

New Accounting Pronouncements

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

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-Current*, which amends IAS 1 *Presentation of Financial Statements*. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities

as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments; however, 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.

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

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

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

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

Changes in Internal Controls over Financial Reporting

Management has evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on October 2, 2022 and ended on December 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience, analysis, and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. Whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including future impacts of the COVID-19 pandemic; general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are

beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

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

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

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

The Company typically believes that investors would find comparable store sales and total comparable sales useful in assessing the performance of the business. However, due to temporary store closures and store traffic restrictions associated with the COVID-19 pandemic, 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.

Indigo Books & Music Inc.
620 King Street West, Suite 400
Toronto, ON M5V 1M6
Phone: (416) 364-4499 Fax: (416) 364-0355

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Peter Ruis
Chief Executive Officer

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

Dated as of February 9, 2023.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022	As at April 2, 2022
ASSETS			
Current			
Cash and cash equivalents (note 5)	**149,961**	189,872	86,469
Accounts receivable	**29,721**	18,223	12,941
Inventories (note 6)	**317,257**	274,682	273,849
Prepaid expenses	**7,267**	6,579	13,508
Derivative assets (note 7)	**2,128**	197	–
Other assets	**3,681**	3,520	3,246
Total current assets	**510,015**	493,073	390,013
Property, plant, and equipment, net	**55,346**	66,520	64,319
Right-of-use assets, net	**308,526**	335,378	333,767
Intangible assets, net	**32,700**	19,353	21,171
Equity investment, net	**–**	2,156	97
Total assets	**906,587**	916,480	809,367
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**289,958**	244,424	178,138
Unredeemed gift card liability	**79,158**	75,269	62,653
Provisions	**569**	1,481	472
Deferred revenue	**22,876**	22,197	20,699
Short-term lease liabilities (note 8)	**69,573**	66,298	69,100
Derivative liabilities (note 7)	**–**	27	631
Total current liabilities	**462,134**	409,696	331,693
Long-term accrued liabilities	**876**	1,048	1,068
Long-term provisions	**784**	649	702
Long-term lease liabilities (note 8)	**419,431**	453,088	448,084
Total liabilities	**883,225**	864,481	781,547
Equity			
Share capital (note 9)	**227,094**	227,069	227,090
Contributed surplus (note 10)	**15,242**	14,338	14,618
Retained deficit	**(220,455)**	(189,954)	(213,403)
Accumulated other comprehensive income (loss) (note 7)	**1,481**	546	(485)
Total equity	**23,362**	51,999	27,820
Total liabilities and equity	**906,587**	916,480	809,367

See accompanying notes

On behalf of the Board:

Peter Ruis, Director

Anne Marie O'Donovan, Director

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

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Revenue (note 11)	**422,728**	430,666	**863,531**	841,560
Cost of sales	**(256,031)**	(252,427)	**(519,601)**	(482,883)
Gross profit	**166,697**	178,239	**343,930**	358,677
Operating, selling, and other expenses (notes 8 and 11)	**(125,194)**	(127,079)	**(333,203)**	(313,940)
Operating profit	**41,503**	51,160	**10,727**	44,737
Net interest expense (note 8)	**(5,947)**	(5,991)	**(18,343)**	(18,068)
Earnings (loss) before income taxes	**35,556**	45,169	**(7,616)**	26,669
Income tax recovery (expense)	**(1,302)**	(49)	**564**	45
Net earnings (loss)	**34,254**	45,120	**(7,052)**	26,714
Other comprehensive income (loss) (note 7)				
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:				
Change in fair value of cash flow hedges	**(1,055)**	(110)	**5,683**	116
Reclassification of realized loss (gain)	**(2,555)**	(22)	**(3,487)**	1,632
Foreign currency translation adjustment	**61**	245	**(230)**	318
Other comprehensive income (loss)	**(3,549)**	113	**1,966**	2,066
Total comprehensive earnings (loss)	**30,705**	45,233	**(5,086)**	28,780
Net earnings (loss) per common share (note 12)				
Basic	**$1.23**	$1.62	**$(0.25)**	$0.96
Diluted	**$1.22**	$1.60	**$(0.25)**	$0.94

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, April 3, 2021	226,986	13,782	(216,668)	(1,520)	22,580
Net earnings for the period	–	–	26,714	–	26,714
Exercise of options (note 9)	83	(22)	–	–	61
Share-based compensation (note 10)	–	578	–	–	578
Cash flow hedges (note 7)	–	–	–	1,748	1,748
Foreign currency translation adjustment	–	–	–	318	318
Balance, January 1, 2022	227,069	14,338	(189,954)	546	51,999
Balance, April 2, 2022	**227,090**	**14,618**	**(213,403)**	**(485)**	**27,820**
Net loss for the period	**–**	**–**	**(7,052)**	**–**	**(7,052)**
Exercise of options (note 9)	**4**	**(1)**	**–**	**–**	**3**
Share-based compensation (note 10)	**–**	**625**	**–**	**–**	**625**
Cash flow hedges (note 7)	**–**	**–**	**–**	**2,196**	**2,196**
Foreign currency translation adjustment	**–**	**–**	**–**	**(230)**	**(230)**
Balance, December 31, 2022	**227,094**	**15,242**	**(220,455)**	**1,481**	**23,362**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
OPERATING ACTIVITIES				
Net earnings (loss)	**34,254**	45,120	**(7,052)**	26,714
Adjustments to reconcile net earnings (loss) to cash flows from operating activities				
Depreciation of property, plant, and equipment	**3,954**	3,992	**11,897**	12,043
Depreciation of right-of-use assets	**10,184**	7,549	**31,249**	26,697
Amortization of intangible assets	**1,642**	2,785	**7,469**	9,269
Loss on disposal of capital assets	**–**	6	**74**	36
Gain on disposal of equity investment (note 14)	**–**	–	**(186)**	–
Share-based compensation (note 10)	**210**	(23)	**625**	578
Deferred income tax expense (recovery)	**1,302**	49	**(564)**	(45)
Other	**1,572**	942	**1,172**	338
Net change in non-cash working capital balances related to operations (note 13)	**113,222**	71,310	**76,107**	69,538
Interest expense (note 8)	**6,282**	6,123	**19,010**	18,617
Interest income	**(335)**	(132)	**(667)**	(549)
Cash flows from operating activities	**172,287**	137,721	**139,134**	163,236
INVESTING ACTIVITIES				
Net purchases of property, plant, and equipment	**(232)**	(523)	**(2,394)**	(1,546)
Addition of intangible assets	**(5,741)**	(2,059)	**(18,999)**	(7,707)
Proceeds from disposal of equity investments (note 14)	**–**	–	**283**	516
Interest received	**335**	132	**667**	549
Cash flows used for investing activities	**(5,638)**	(2,450)	**(20,443)**	(8,188)
FINANCING ACTIVITIES				
Repayment of principal on lease liabilities (note 8)	**(11,472)**	(10,273)	**(34,725)**	(31,316)
Interest paid (note 8)	**(6,282)**	(6,123)	**(19,010)**	(18,617)
Proceeds from related party credit facility (note 14)	**5,000**	–	**25,000**	–
Repayment of related party credit facility (note 14)	**(25,000)**	–	**(25,000)**	–
Proceeds from share issuances	**–**	32	**–**	61
Cash flows used for financing activities	**(37,754)**	(16,364)	**(53,735)**	(49,872)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1,569)**	(940)	**(1,464)**	(239)
Net increase in cash and cash equivalents during the period	**127,326**	117,967	**63,492**	104,937
Cash and cash equivalents, beginning of period	**22,635**	71,905	**86,469**	84,935
Cash and cash equivalents, end of period	**149,961**	189,872	**149,961**	189,872

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 2022
(Unaudited)

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2022 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's fiscal 2022 Annual Report.

These unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 31, 2022 (including comparatives) were approved by the Board of Directors on February 9, 2023.

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 the first three quarters of 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 quarter of the prior year.

The impact of the outbreak on the financial results of the Company will depend on future developments, including government imposed restrictions such as closures, quarantine policies and social distancing measures, as well as the indirect impacts to the global economy. All of these had, and can continue to have, a negative impact on the Company's retail operations, 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.

Significant Judgments and Estimates

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

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

3. CHANGES IN ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2022 Annual Report. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Changes to significant accounting policies are described below.

New Accounting Pronouncements

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments; however, 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.

4. SEASONALITY OF OPERATIONS

Indigo's business historically follows a seasonal pattern, with sales of merchandise being highest in the third fiscal quarter due to consumer holiday buying patterns. As a result, a disproportionate amount of revenue is typically earned in the third

fiscal quarter. Therefore, the results of operations for the 13 and 39-week periods ended December 31, 2022 and January 1, 2022 are not indicative of the results of other periods.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022	As at April 2, 2022
Cash	**148,841**	181,373	83,596
Restricted cash	**1,092**	8,471	2,845
Cash equivalents	**28**	28	28
Cash and cash equivalents	**149,961**	189,872	86,469

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

6. INVENTORIES

The cost of inventories recognized as an expense during the 13 and 39-week periods ended December 31, 2022 was $244.3 million and $490.0 million, respectively (2022: 13 weeks – $241.5 million; 39 weeks – $461.1 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13 and 39-week periods ended December 31, 2022 were $0.2 million and $8.2 million, respectively (2022: 13 weeks – $0.6 million; 39 weeks – $5.2 million). The amount of inventory with net realizable value equal to cost was $5.0 million as at December 31, 2022 (January 1, 2022 – $2.3 million; April 2, 2022 – $2.8 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts

match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). Furthermore, the Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts is identical to the hedged risk components.

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

During the 13-week period ended December 31, 2022, the Company did not enter into any new contracts to purchase U.S. dollar / Canadian dollar currency pair forwards, and during the 39-week period ended December 31, 2022, the Company entered into contracts with total notional amounts of C$78.6 million (2022: 13 weeks – C$55.5 million; 39 weeks – C$142.4 million). As at December 31, 2022, the Company had remaining contracts in place representing total notional amounts of C$36.5 million (January 1, 2022 – C$84.9 million) at an average forward rate of 1.28 (January 1, 2022 – 1.26). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at December 31, 2022 resulted in the recognition of a derivative asset of $2.1 million (January 1, 2022 – $0.2 million; April 2, 2022 – no derivative asset), and no derivative liability (January 1, 2022 – a derivative liability below $0.1 million; April 2, 2022 – $0.6 million).

During the 13 and 39-week periods ended December 31, 2022, the Company had net losses (net of taxes) of $1.1 million and net gains (net of taxes) of $5.7 million, respectively, from the change in fair value of outstanding cash flow hedges (2022: 13 weeks – net losses (net of taxes) of $0.1 million; 39 weeks – net gains (net of taxes) of $0.1 million). During the same respective periods, the Company reclassified net gains (net of taxes) of $1.3 million and $2.3 million from settled contracts out of other comprehensive income to inventory and expenses (2022: 13 weeks – immaterial net gains (net of taxes); 39 weeks – net losses (net of taxes) of $1.6 million).

During the 13-week period ended December 31, 2022, the Company terminated certain derivative instruments and consequently, hedge accounting was discontinued. A gain of $1.2 million (net of taxes) was reclassified out of other comprehensive income and recognized in earnings concurrently with the related hedged transactions, which also occurred during the quarter. There were no other forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 13 and 39-week periods ended December 31, 2022 and January 1, 2022.

This resulted in other comprehensive loss of $3.5 million and other comprehensive income of $2.0 million for the 13 and 39-week periods ended December 31, 2022 (2022: 13 weeks – other comprehensive income of $0.1 million; 39 weeks – other comprehensive income of $2.1 million).

Potential causes of mismatch between the hedging instrument and hedged item which would generate ineffectiveness include changes in credit risk, a timing mismatch between the maturity of the instrument and the future transaction date, and/or the hedged transaction does not occur. Reclassified amounts resulting from hedge ineffectiveness, as well as any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 13 and 39-week periods ended December 31, 2022 and January 1, 2022.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Balance, beginning of period	**499,678**	519,935	**517,184**	550,274
Lease modifications included in the scope of IFRS 16	**1,082**	8,747	**4,555**	(686)
Interest expense on lease liabilities	**6,282**	6,123	**19,010**	18,617
Repayment of interest and principal on lease liabilities	**(17,754)**	(16,396)	**(53,735)**	(49,933)
Foreign currency adjustment	**(284)**	977	**1,990**	1,114
Balance, end of period	**489,004**	519,386	**489,004**	519,386

9. SHARE CAPITAL

Share capital consists of the following:

	39-week period ended December 31, 2022		39-week period ended January 1, 2022		52-week period ended April 2, 2022	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,349,711**	**227,090**	27,273,961	226,986	27,273,961	226,986
Issued during the period						
Options exercised	**3,000**	**4**	60,300	83	75,750	104
Balance, end of period	**27,352,711**	**227,094**	27,334,261	227,069	27,349,711	227,090

10. SHARE-BASED COMPENSATION

As at December 31, 2022, 3,322,000 stock options were outstanding with exercise prices ranging from $1.00 to $14.75. Of these outstanding stock options, 1,937,250 were exercisable at a weighted average exercise price of $5.06. As at January 1, 2022, there were 3,123,250 stock options outstanding, 1,626,150 of which were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13 and 39-week periods ended December 31, 2022, the pre-forfeiture value of options granted was $0.8 million (2022: 13 weeks – $0.4 million; 39 weeks – $1.7 million).

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

	13-week period ended December 31, 2022	13-week period ended January 1, 2022
Black-Scholes option pricing assumptions		
Risk-free interest rate	**3.8%**	1.0%
Expected volatility	**66.2%**	77.8%
Expected time until exercise	**2.5 years**	2.5 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**24.3%**	24.7%

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 December 31, 2022 is $3.2 million (January 1, 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, determined using an option pricing model to reflect the traded price of the Company's common shares as at each reporting date. All changes to the fair value of the cash-settled DSUs is recorded in the Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss).

All Directors' compensation during the 13 and 39-week periods ended December 31, 2022 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2022 – all cash-settled DSUs, with the exception of cash awards of less than $0.1 million.)

The Company issued 89,102 cash-settled DSUs with a value of $0.2 million during the 13-week period ended December 31, 2022 (2022 – 18,702 cash-settled DSUs with a value of $0.1 million). During the 39-week period ended December 31, 2022, the Company issued 224,412 cash-settled DSUs with a value of $0.5 million (2022 – 54,877 cash-settled DSUs with a value of $0.2 million). The number of cash-settled DSUs to be issued to each Director is based on a set fee schedule. The fair value of outstanding cash-settled DSUs recorded in current liabilities as at December 31, 2022 is $0.3 million (January 1, 2022 – $0.1 million). During the periods ended December 31, 2022 and January 1, 2022, the Company did not record any material changes to the fair value of cash-settled DSU obligations.

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

	13-week period ended December 31, 2022
Black-Scholes option pricing assumptions	
Risk-free interest rate	**3.8%**
Expected volatility	**74.9%**
Expected time until exercise	**3.0 years**
Expected dividend yield	**–**

11. SUPPLEMENTARY OPERATING INFORMATION

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Print[1]	**195,544**	208,022	**440,812**	442,610
General merchandise[2]	**217,553**	212,034	**392,708**	356,331
Other[3]	**9,631**	10,610	**30,011**	42,619
Total	**422,728**	430,666	**863,531**	841,560

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, 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)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Superstores[1]	**262,364**	257,160	**532,730**	474,867
Small format stores[1]	**43,690**	40,934	**87,667**	73,054
Online (including store kiosks)	**107,043**	121,962	**213,123**	251,020
Other[2]	**9,631**	10,610	**30,011**	42,619
Total	**422,728**	430,666	**863,531**	841,560

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

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

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Wages, salaries, and bonuses	**55,397**	61,774	**145,839**	144,681
Short-term benefits expense	**5,329**	5,655	**14,515**	15,224
Termination benefits expense	**1,795**	758	**4,320**	1,774
Retirement benefits expense	**576**	457	**1,609**	1,375
Share-based compensation	**210**	(23)	**625**	578
Total employee benefits expense	**63,307**	68,621	**166,908**	163,632

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") and rent subsidies from the Canada Emergency Rent Subsidy ("CERS"). Both programs ended in fiscal 2022. The Company did not qualify for subsidies under any newly introduced programs in the 13 and 39-week periods ended December 31, 2022. In the prior year, the Company recognized a reserve of $1.5 million related to contingencies associated with its fiscal 2022 filings, and subsidy amounts of $5.2 million, respectively, in the 13 and 39-week periods ended January 1, 2022. These amounts were recorded against the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses and associated eligible rent expenses recognized in cost of operations, respectively.

In the 13-week period ended December 31, 2022, 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. The grant amount was recorded against the associated eligible expenses in cost of operations and selling, general and administrative expenses.

12. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the

Company's stock options do not result in adjustments to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the 13 and 39-week periods ended December 31, 2022 and January 1, 2022 is as follows:

	13-week period ended December 31, 2022	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Weighted average number of common shares outstanding, basic	**27,813,854**	27,783,278	**27,813,596**	27,760,156
Effect of dilutive securities – stock options	**327,567**	497,531	**–**	520,536
Weighted average number of common shares outstanding, diluted	**28,141,421**	28,280,809	**27,813,596**	28,280,692

For the 13-week period ended December 31, 2022, 2,704,500 stock options were anti-dilutive (2022: 13 weeks – 2,458,550 stock options were anti-dilutive). Only the dilutive stock options were included in the computation of diluted net earnings per common share. All outstanding stock options were anti-dilutive for the 39-week period ended December 31, 2022 as the Company reported a loss (2022: 39 weeks – 2,458,550 stock options were anti-dilutive).

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Accounts receivable	**(15,013)**	1,016	**(16,780)**	4,753
Inventories	**62,456**	42,776	**(43,408)**	(59,568)
Prepaid expenses	**624**	9,268	**6,241**	5,699
Other assets	**(2,358)**	(2,449)	**(435)**	(1,400)
Accounts payable and accrued liabilities (current and long-term)	**43,542**	(3,650)	**111,628**	98,189
Unredeemed gift card liability	**22,137**	22,699	**16,505**	17,216
Provisions (current and long-term)	**14**	(709)	**179**	(1,062)
Deferred revenue	**1,820**	2,359	**2,177**	5,711
Net change in non-cash working capital balances	**113,222**	71,310	**76,107**	69,538

14. RELATED PARTY TRANSACTIONS

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, subsidiaries and 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)	**13-week period ended December 31, 2022**	13-week period ended January 1, 2022	**39-week period ended December 31, 2022**	39-week period ended January 1, 2022
Wages, salaries, and bonus	**1,817**	2,377	**5,640**	5,808
Short-term benefits expense	**203**	203	**539**	332
Termination benefits expense	**–**	–	**860**	–
Retirement benefits expense	**20**	17	**53**	47
Share-based compensation	**95**	(55)	**315**	371
Directors' compensation	**96**	47	**187**	114
Total remuneration	**2,231**	2,589	**7,594**	6,672

Transactions with Shareholders

During the third quarter of fiscal 2023, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest.

During the 13 and 39-week periods ended December 31, 2022, the Company paid less than $0.1 million and $0.3 million, respectively, for these transactions (2022: 13 weeks – $0.1 million; 39 weeks – $0.3 million). As at December 31, 2022, Indigo had nominal amounts payable to these companies under standard payment terms (January 1, 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, and had a maturity date of

February 1, 2023. 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. An incremental amount of $5.0 million was drawn in the 13-week period ended December 31, 2022. The outstanding balance of $25.0 million was repaid as at December 31, 2022.

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

Transactions with Associates
During the second quarter of fiscal 2023, the Company sold its equity investment in Unplug Meditation, LLC ("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 comparable 13 and 39-week periods in the prior year.

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.

15. SUBSEQUENT EVENTS

Indigo experienced a cybersecurity incident commencing on February 8, 2023, resulting in internal operational disruptions and service disruptions to both the ecommerce and retail channels. The Company is executing its business continuity plans and alongside third-party experts is working to investigate and resolve the situation. At the moment, an estimate of the financial effect of this event cannot be determined.

Investor Information

Corporate Home Office

620 King Street West
Suite 400
Toronto, Ontario
Canada M5V 1M6
Telephone: (416) 364-4499
Fax: (416) 364-0355

Investor Contact

InvestorRelations@indigo.ca
www.chapters.indigo.ca/investor-relations/

Media Contact

Melissa Perri
Manager, Public Relations
mperri@indigo.ca
Telephone: (416) 529-6354

Stock Listing

Toronto Stock Exchange

Trading Symbol

IDG

Transfer Agent and Registrar

TSX Trust Company
P.O. Box 700, Station B
Montreal, Quebec
Canada H3B 3K3
Telephone:
(Toll Free) 1-800-387-0825
(Toronto) (416) 682-3860
Fax: 1-888-249-6189
Email:
shareholderinquiries@tmx.com
Website: www.tsxtrust.com

Auditors

Ernst & Young LLP
EY Tower
100 Adelaide Street West, PO Box 1
Toronto, Ontario
Canada M5H 0B3

"Let the beauty of what you love be *what you do.*"

—Rumi

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