FIRST QUARTER REPORT FOR THE 13-WEEK PERIOD ENDED JULY 1, 2023

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management's discussion and analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 10, 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-week periods ended July 1, 2023 and July 2, 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 2023 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 1, 2023 and the MD&A included in the Company's fiscal 2023 Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, home, wellness, fashion, paper, baby and kids products, that support customers by simplifying their journey to *Living with Intention*. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 87 superstores 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.

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

Ransomware Attack Update

On February 8, 2023, Indigo was the victim of a ransomware attack, resulting in internal operational disruptions and service disruptions to both the ecommerce and retail channels. Upon discovery, the Company immediately engaged third-party experts to assist Indigo in investigating and resolving the situation. As at the end of the first quarter, the Company has made substantial progress to achieve almost full operational function.

For the 13-week period ended July 1, 2023, the Company incurred $0.6 million of costs associated with the ransomware attack, including breach response legal and professional fees, data remediation costs and hardware and software restoration, amongst others. This is in addition to the $5.2 million of expenses incurred in the fourth quarter of fiscal 2023. The ransomware attack continued to have a material impact on quarterly sales and profitability in the first quarter, the extent of which is difficult to reasonably quantify.

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

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13-week periods ended July 1, 2023, and July 2, 2022.

(millions of Canadian dollars)	**13-week period ended July 1, 2023**	**% Revenue**	13-week period ended July 2, 2022	% Revenue
Revenue	**179.2**	**100.0**	204.6	100.0
Cost of sales	**(104.5)**	**58.3**	(122.8)	60.0
Cost of operations	**(54.3)**	**30.3**	(56.8)	27.8
Selling, general and administrative expenses	**(25.0)**	**14.0**	(27.3)	13.3
Depreciation of right-of-use assets	**(10.3)**	**5.7**	(10.5)	5.1
Finance charges related to leases	**(6.5)**	**3.6**	(6.4)	3.1
Adjusted EBITDA[1]	**(21.4)**	**11.9**	(19.2)	9.4
Depreciation of property, plant and equipment	**(3.7)**	**2.1**	(4.0)	2.0
Amortization of intangible assets	**(2.1)**	**1.2**	(2.7)	1.3
Net interest income	**0.3**	**0.2**	0.2	0.1
Non-recurring legal fees	**(0.4)**	**0.2**	–	–
Severance for restructured roles	**(0.4)**	**0.2**	–	–
Expenses from ransomware attack	**(0.6)**	**0.3**	–	–
Loss before income taxes	**(28.3)**	**15.8**	(25.8)	12.6

1 Earnings before interest, taxes, depreciation, amortization, asset disposals and certain non-recurring or unusual amounts, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. For further information on the key metric and its computation, see "Non-IFRS Financial Measures".

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

Revenue

Total consolidated revenue for the 13-week period ended July 1, 2023 decreased by $25.4 million or 12.4% to $179.2 million from $204.6 million for the 13-week period ended July 2, 2022. Sales were negatively impacted in both the retail and online sales channels by the carryover effects of the ransomware attack on internal operations. The Company's search engine optimization was challenged, as were inventory replenishment abilities during the attack, which influenced available assortment into the first quarter. As these challenges were managed throughout the quarter, sales momentum was positively impacted, with the decline in year-over-year sales improving every month. Sales were also pressured by the impact of the current macro-economic environment on consumer spending. Overall demand declined, and customers showed a drive towards promotional events, noted by an increased penetration of promotions and a lift in sales at the end of the quarter during the bi-annual "Good Stuff Sale".

The Company's print business declined by 12.3%, compared to the prior period which had several top releases, including the Heartstoppers and Colleen Hoover series, which drove meaningful sales and traffic. The Company noted an increase in sales in the bargain print category, demonstrating customers' price sensitivity in the current macro-economic environment. The general merchandise business declined by 16.4%, and continued to be affected by softer discretionary spending spanning across most product categories. Both businesses were also impacted by the replenishment limitations discussed above.

Total comparable sales, which includes online sales, decreased by 13.8% in the first quarter. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocations and material changes in square footage. These measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, decreased by $13.8 million or 9.6% to $130.1 million for the 13-week period ended July 1, 2023 compared to $143.9 million for the same period last year. Comparable retail superstore sales for the quarter decreased by 10.1% and comparable small format store sales decreased by 3.1%. The retail network felt the downward pressures of a challenging macro-economic environment which affected consumer behaviour, along with the impacts of the ransomware attack, which limited store replenishment capabilities and express pick-up functionality. The disruptions from the ransomware attack were less extensive to small format stores, as evidenced by the variance in comparable store sales across the retail network. The Company closed one large format store since the prior year, contributing to the decrease in total retail revenue.

Online revenue decreased by $13.6 million or 26.2% to $38.3 million for the 13-week period ended July 1, 2023 compared to $51.9 million for the same period last year. The channel was heavily impacted by carryover effects of the ransomware attack. While the online sales platforms were running throughout the quarter, there continued to be system limitations which impacted the functionality of the platforms. Most notably, the Company's search engine optimization was heavily impacted, resulting in a weaker online presence and negatively affecting traffic. Still, online sales remained 33% above the comparable pre-pandemic period.

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"), sublease revenue and e-book revenue sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $2.1 million or 24.1% to $10.8 million for the 13-week period ended July 1, 2023 compared to $8.7 million in the prior year, primarily driven by elevated breakage income related to a change in redemption patterns.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022	% increase (decrease)	Comparable sales % increase (decrease)
Superstores[1]	**110.7**	123.8	(10.6)	(10.1)
Small format stores[1]	**19.4**	20.1	(3.5)	(3.1)
Online (including store kiosks)	**38.3**	51.9	(26.2)	26.2
Other[2]	**10.8**	8.7	24.1	N/A
Total	**179.2**	204.6	(12.4)	(13.8)

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

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

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Total retail store revenue	**130.1**	143.9
Total online revenue	**38.3**	51.9
Adjustments for stores not in both fiscal periods	**(5.9)**	(7.3)
Total comparable sales	**162.5**	188.5

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Total revenue by format	**110.7**	123.8	**19.4**	20.1
Adjustments for stores not in both fiscal periods	**(5.4)**	(6.7)	**(0.5)**	(0.6)
Comparable retail store sales	**105.3**	117.1	**18.9**	19.5

Revenue by product line is as follows:

	13-week period ended July 1, 2023	13-week period ended July 2, 2022
Print[1]	**56.8%**	56.7%
General merchandise[2]	**37.2%**	39.0%
Other[3]	**6.0%**	4.3%
Total	**100.0%**	100.0%

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

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

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

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales decreased by $18.3 million to $104.5 million for the 13-week period ended July 1, 2023, compared to $122.8 million for the same period last year. As a percent of total revenue, cost of sales decreased to 58.3% compared to 60.0% in the prior year.

Excluding the impact of online shipping costs, cost of sales decreased by $16.0 million to $96.8 million for the 13-week period ended July 1, 2023, compared to $112.8 million in the same period last year. As a percent of total revenue, cost of sales excluding the impact of online shipping costs decreased to 54.0% compared to 55.1% in the prior year. The decrease in cost of sales was impacted by overall lower sales volumes. This was furthered by reduced international freight costs compared to the prior year, as well as the shift in sales channel mix between the retail and online channel, as the retail network traditionally has a higher margin profile. This was partially offset by a higher penetration of promotional sales in the quarter.

Online shipping costs decreased by $2.3 million to $7.7 million for the 13-week period ended July 1, 2023, compared to $10.0 million in the same period last year, driven by the discussed reduction in online sales.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased by $2.5 million to $54.3 million for the 13-week period ended July 1, 2023, compared to $56.8 million for the same period last year. As a percent of total revenue, cost of operations was 30.3% compared to 27.8% in the prior year. The decrease in cost of operations was driven by reduced labour costs in the retail network from a new store operating model, furthered by warehousing and distribution cost savings in both the retail and online channels. Variable selling costs also decreased with the reduction in sales volume. These savings were partially offset by increased occupancy costs, as the Company received $1.0 million in occupancy expense abatement in the prior 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. Selling, general and administrative expenses decreased by $2.3 million to $25.0 million for the 13-week period ended July 1, 2023, compared to $27.3 million in the same period last year. As a percent of total revenue, selling, general and administrative expenses was 14.0% compared to 13.3% in the prior year. This change was driven by reduced labour costs, partially offset by increased service fees associated with cloud computing arrangements. As the Company continues to modernize its ecommerce technology, it has shifted towards cloud computing arrangements and incurs service and hosting fees that are primarily recognized through selling, general and administrative expenses. Prior to such arrangements, the Company purchased software and hardware that was depreciated and amortized over the useful lives of the assets. This has created a shift between selling, general and administrative expenses and depreciation and amortization.

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 remained relatively constant, decreasing by $0.1 million to $16.8 million for the 13-week period ended July 1, 2023, compared to $16.9 million for the same period last year.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, asset disposals, and certain non-recurring or unusual amounts, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. The impact of events that are non-recurring or unusual in nature, that the Company believes are not otherwise reflective of ongoing operations and which would make comparisons of underlying financial performance between periods difficult, are excluded from the calculation of Adjusted EBITDA. These include non-recurring legal costs that are outside the scope of normal operations, severance for roles that have been restructured and expenses associated with the ransomware attack.

Adjusted EBITDA decreased by $2.2 million to a loss of $21.4 million for the 13-week period ended July 1, 2023, compared to a loss of $19.2 million for the same period last year. Adjusted EBITDA, as a percent of total revenue, was a loss of 11.9%, compared to a loss of 9.4% in the prior year. Adjusted EBITDA was primarily impacted by reduced sales volumes, affected by the carryover impacts of the ransomware attack, as well as the downward pressures of a challenging macro-economic environment. The Company generated some cost savings in the quarter, driven by reduced labour costs and by warehousing and distribution cost savings in both channels. This was furthered by reduced international freight costs. These savings were partially offset by increased occupancy costs, as the Company received $1.0 million in occupancy expense abatement in the prior year, and additional costs incurred related to the Company's digital modernization efforts.

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

Capital Assets

Depreciation and amortization of capital assets, excluding right-of-use assets, for the 13-week period ended July 1, 2023 decreased by $0.8 million to $5.9 million compared to $6.7 million for the same period last year. The decrease was primarily driven by reduced intangible asset amortization, a result of intangible assets reaching full amortization in the prior year. The majority of intangible asset additions in the current year were not ready for use, and therefore were not yet being amortized.

Capital expenditures in the first quarter of fiscal 2024 totaled $7.2 million compared to $8.1 million for the same period last year, and were primarily to support the Company's investment in its digital platforms. Capital expenditures included $5.0 million for digital application software and internal development costs, $2.0 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances, and $0.2 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, increased $0.1 million to $0.3 million for the 13-week period ended July 1, 2023, compared to $0.2 million for the same period last year, a result of increased interest rates. The Company nets interest income against interest expense.

Other Non-Recurring Expenses

The impact of events that are non-recurring or unusual in nature, that the Company believes are not otherwise reflective of ongoing operations and which would make comparisons of underlying financial performance between periods difficult, are excluded from the calculation of Adjusted EBITDA. These include non-recurring legal costs that are outside the scope of normal operations, severance for roles that have been restructured and expenses associated with the ransomware attack. For the 13-week period ended July 1, 2023, non-recurring or unusual expenses excluded from the calculation of Adjusted EBITDA totaled $1.4 million.

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

Income Taxes

The Company recognized a non-cash deferred income tax expense of $0.2 million for the 13-week period ended July 1, 2023, compared to recognizing a non-cash deferred income tax recovery of $0.4 million for the same period last year, impacted by the movement in cash flow hedges. Since fiscal 2020, the Company has not recognized deferred tax assets, in excess of those used to offset any deferred income tax expense in the period, influenced by operating losses and uncertainty surrounding future taxable profit being available against which they can be utilized.

The Company used a statutory income tax rate of 26.3% for the first quarter of fiscal 2024, and in the same period last year. The Company does not expect to pay cash income taxes in the current year.

Net Loss

The Company recognized a net loss of $28.5 million for the 13-week period ended July 1, 2023 ($1.02 net loss per common share), compared to a net loss of $25.4 million ($0.91 net loss per common share) for the same period last year, a change of $3.1 million. The change in net loss was mainly a result of reduced sales, affected by the carryover impacts of the ransomware attack, as well as the downward pressures of a challenging macro-economic environment. While the Company generated some cost savings in the quarter through reduced labour, warehousing and distribution, and international freight costs, these did not offset the impact of the top-line decline.

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 hedging policy to mitigate foreign exchange risk, and may enter 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 by the Company have been designated as cash flow hedges for accounting purposes and extend over a period not exceeding 12 months.

The Company entered into no new contracts in the 13-week period ended July 1, 2023, to buy U.S. dollars and sell Canadian dollars, compared to entering into new contracts with total notional amounts of C$78.6 million in the same period last year.

As at July 1, 2023, the Company did not have any remaining contracts in place. As at July 2, 2022, the Company had remaining contracts in place representing total notional amounts of C$124.4 million and an unrealized net gain of $1.4 million.

For the 13-week period ended July 1, 2023, the Company recognized an other comprehensive loss of $0.4 million from the Company's cash flow hedges and from foreign currency translation adjustments on consolidation of its foreign subsidiaries, compared to total other comprehensive income of $1.5 million in the same period last year.

Seasonality and First Quarter Results

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

Uncertainties" section of the Company's fiscal 2023 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)	**Q1 Fiscal 2024**	Q4 Fiscal 2023	Q3 Fiscal 2023	Q2 Fiscal 2023	Q1 Fiscal 2023	Q4 Fiscal 2022	Q3 Fiscal 2022	Q2 Fiscal 2022
Revenue	**179.2**	194.2	422.7	236.2	204.6	220.7	430.7	238.8
Net earnings (loss)	**(28.5)**	(42.5)	34.3	(15.9)	(25.4)	(23.4)	45.1	3.5
Basic earnings (loss) per common share	**$(1.02)**	$(1.53)	$1.23	$(0.57)	$(0.91)	$(0.84)	$1.62	$0.13
Diluted earnings (loss) per common share	**$(1.02)**	$(1.53)	$1.22	$(0.57)	$(0.91)	$(0.84)	$1.60	$0.13

Overview of Consolidated Balance Sheets

Assets

As at July 1, 2023, total assets decreased by $60.2 million to $707.2 million, compared to $767.4 million as at July 2, 2022. This was primarily driven by decreases in inventories, cash and cash equivalents, and a net decrease in capital assets. Inventories decreased by $27.7 million; while the Company is focused on maintaining appropriate inventory levels to satisfy current consumer demand, inventory was also impacted by the ransomware attack which caused system limitations that affected replenishment abilities. Cash and cash equivalents decreased by $21.9 million. This change was mainly attributed to a lower opening cash balance, driven by the net loss recognized over the prior year. The decrease in cash and cash equivalents for the quarter was relatively consistent compared to the prior year. Capital assets had a net decrease of $8.4 million, as depreciation and amortization over the past four quarters outpaced capital investment and lease modifications recognized.

On a fiscal year-to-date basis, total assets decreased by $30.9 million to $707.2 million, compared to $738.1 million as at April 1, 2023. This change was driven by decreases in cash and cash equivalents and a net decrease in capital assets, partially offset by an increase in inventories. Cash and cash equivalents decreased by $43.9 million, primarily driven by the net loss and capital asset investment in the quarter. Net capital assets decreased by $4.9 million, as the Company continued to invest in its digital infrastructure, the investment was outpaced by the depreciation and amortization recognized. Inventories increased by $16.4 million as the prior year end balance, as noted, was affected by system limitations caused by the ransomware attack, which negatively impacted inventory replenishment capabilities.

Liabilities

As at July 1, 2023, total liabilities decreased by $7.5 million to $755.8 million, compared to $763.3 million as at July 2, 2022. This was primarily driven by a net decrease in lease liabilities and partially offset by a net increase in accounts payable and accrued liabilities. Lease liabilities had a net decrease of $14.5 million, which reflects the impact of principal and interest repayments over the past four quarters, less lease modifications recognized. The net increase in accounts payable and accrued liabilities of $5.2 million related to the timing of payments for inventory purchases.

On a fiscal year-to-date basis, total liabilities decreased by $2.3 million to $755.8 million, compared to $758.1 million as at April 1, 2023. The decrease was driven by a net decrease in lease liabilities, partially offset by a net increase in accounts payable and accrued liabilities. Lease liabilities had a net decrease of $7.0 million, for the same reasons discussed above. Accounts payable and accrued liabilities had a net increase of $5.4 million, consistent with the increase in inventories in the quarter.

Equity (Deficit)

Total equity as at July 1, 2023 decreased by $52.8 million to a deficit of $48.6 million, compared to equity of $4.2 million as at July 2, 2022, driven primarily by the net loss of $52.7 million recognized over the past four quarters.

On a fiscal year-to-date basis, total equity decreased by $28.6 million to a deficit of $48.6 million, compared to a deficit of $20.0 million as at April 1, 2023, due to the net loss recognized in the quarter.

Note, the current deficit balance was previously impacted by the fiscal 2020 adoption of IFRS 16, furthered by the recognized impairment losses and de-recognition of the Company's deferred tax assets during the same period, all of which generated a deficit of $246.4 million.

The weighted average number of common shares outstanding for the first quarter of fiscal 2024 was 27,832,690 compared to 27,813,467 in the prior year. As at July 1, 2023, the number of outstanding common shares was 27,529,811 with a book value of $227.3 million. As at August 10, 2023, the number of outstanding common shares was 27,597,253.

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 cash flows from financing activities to fund the business before generating a disproportionate amount of cash during the holiday sales season.

The Company reported negative working capital of $27.9 million as at July 1, 2023, compared to working capital of $31.5 million as at July 2, 2022 and $4.1 million as at April 1, 2023. The decrease in working capital compared to the prior year was primarily driven by the discussed decreases in inventories and cash and cash equivalents, furthered by the increase in accounts payable and accrued liabilities.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased by $43.9 million for the 13-week period ended July 1, 2023 compared to a decrease of $43.3 million in the same period last year. The decrease in cash and cash equivalents in the period was driven by cash flows used in operating activities, investing activities, and financing activities of $20.1 million, $6.9 million, and $17.2 million, respectively.

Cash Flows Used for Operating Activities

The Company used cash flows of $20.1 million for operating activities in the 13-week period ended July 1, 2023 compared to using cash flows of $17.4 million in the same period last year, a change of $2.7 million. This was primarily a result of the decrease in Adjusted EBITDA recognized in the current quarter, which was partially offset by a $1.2 million decrease in cash used for working capital compared to the prior year. The change in cash used for working capital was mainly impacted by higher accounts payable, partially offset by the change in working capital used for prepaid expenses impacted by the timing of period end dates.

Cash Flows Used for Investing Activities

The Company used cash flows of $6.9 million for investing activities in the 13-week period ended July 1, 2023 compared to $7.9 million in the same period last year, a change of $1.0 million. The Company continued investing primarily in its digital modernization initiatives, which involves a fully re-designed online shopping experience and revitalized ecommerce technology.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Furniture, fixtures, equipment, and leasehold improvements, net	**2.0**	2.0
Intangible assets (digital application software and internal development costs)	**5.0**	6.0
Technology equipment	**0.2**	0.1
Total	**7.2**	8.1

Cash Flows Used for Financing Activities

The Company used cash flows of $17.2 million for financing activities in the 13-week period ended July 1, 2023 compared to $18.0 million in the same period last year, a change of $0.8 million. This was mainly driven by lower 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 sales 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.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, it is expected that the Company's current cash position and future cash flows generated from operations and financing activities will be sufficient to meet its working capital requirements for fiscal 2024. Subsequent to July 1, 2023, the Company entered into a revolving line of credit facility with Trilogy Retail Holdings Inc. ("Trilogy"), as lender (the "Credit Facility"), pursuant to the commitment letter signed on June 27, 2023. The Credit Facility is for an aggregate principal amount of up to $45.0 million and, with the consent of Trilogy, the amount may be increased by up to $10.0 million. The Credit Facility will also supplement the Company's liquidity. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the impacts of the ransomware attack and the current macro-economic environment, amongst others.

For additional discussion surrounding risks and uncertainties related to liquidity, refer to the "Risks and Uncertainties" section in the Company's fiscal 2023 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: gift card breakage; *plum*® breakage; *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 2023 Annual Report.

Accounting Standards Implemented in Fiscal 2024

Changes in Accounting Policies and Accounting Estimates (Amendments to IAS 8)
In February 2021, the International Accounting Standards Board ("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. The Company assessed the impact of the amendment and determined that there is no material impact on the unaudited interim condensed consolidated financial statements.

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, 2024. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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 April 2, 2023 and ended on July 1, 2023 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 ongoing impacts from the ransomware attack; public health crises; general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. See "Risk Factors" in the Company's fiscal 2023 MD&A for additional information about factors or assumptions that could cause actual results to differ materially from expectations and that are applied in making forward-looking information.

Non-IFRS Financial Measures

The Company prepares its 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 comparable sales and Adjusted EBITDA, in the discussion and analysis section above. These 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.

Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are based on a 52-week fiscal year and defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocations, and material changes in square footage. Both measures are key performance indicators for the Company.

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), asset disposals and income taxes. As retail occupancy leases represent a material component of the Company's cost structure and are managed with its operating costs, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. As a result, IFRS 16 right-of-use asset depreciation and associated lease finance costs are reflected in the key metric. Adjusted EBITDA also excludes the impact of certain events that are non-recurring or unusual in nature that the Company believes are not otherwise reflective of ongoing operations and which would make comparisons of underlying financial performance between periods difficult.

Reconciliations between Adjusted EBITDA and loss before income taxes (the most comparable IFRS measure), and between total comparable sales, comparable retail store sales, and revenue (the most comparable IFRS measure), were included earlier in this report.

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Dated as of August 10, 2023.

consolidated balance sheets

(Unaudited)

(thousands of Canadian dollars)	**As at July 1, 2023**	As at July 2, 2022	As at April 1, 2023
ASSETS			
Current			
Cash and cash equivalents (note 5)	**21,225**	43,168	65,113
Accounts receivable	**15,182**	15,403	14,069
Inventories (note 6)	**260,484**	288,184	244,063
Prepaid expenses	**7,592**	7,971	6,830
Derivative assets (note 7)	**–**	1,431	699
Other assets	**1,640**	1,644	1,254
Total current assets	**306,123**	357,801	332,028
Property, plant, and equipment, net	**50,820**	62,613	52,464
Right-of-use assets, net	**311,970**	322,450	318,302
Intangible assets, net	**38,325**	24,459	35,287
Equity investment, net	**–**	97	–
Total assets	**707,238**	767,420	738,081
LIABILITIES AND EQUITY (DEFICIT)			
Current			
Accounts payable and accrued liabilities	**175,810**	170,102	169,860
Unredeemed gift card liability	**66,515**	64,578	66,887
Provisions	**1,958**	531	1,879
Deferred revenue	**19,788**	21,367	20,129
Short-term lease liabilities (note 8)	**69,950**	69,679	69,161
Derivative liabilities (note 7)	**–**	47	–
Total current liabilities	**334,021**	326,304	327,916
Long-term accrued liabilities	**466**	991	1,007
Long-term provisions	**851**	744	851
Long-term lease liabilities (note 8)	**420,473**	435,211	428,284
Total liabilities	**755,811**	763,250	758,058
Equity (Deficit)			
Share capital (note 9)	**227,337**	227,090	227,094
Contributed surplus (note 10)	**15,526**	14,861	15,463
Retained deficit	**(291,477)**	(238,810)	(262,969)
Accumulated other comprehensive income (note 7)	**41**	1,029	435
Total equity (deficit)	**(48,573)**	4,170	(19,977)
Total liabilities and equity (deficit)	**707,238**	767,420	738,081

See accompanying notes

On behalf of the Board:

Peter Ruis, Director

Donald Lewtas, Director

consolidated statements of loss and comprehensive loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended July 1, 2023	13-week period ended July 2, 2022
Revenue (note 11)	**179,171**	204,556
Cost of sales	**(104,500)**	(122,808)
Gross profit	**74,671**	81,748
Operating, selling, and other expenses (notes 8 and 11)	**(96,779)**	(101,343)
Operating loss	**(22,108)**	(19,595)
Net interest expense (note 8)	**(6,215)**	(6,179)
Loss before income taxes	**(28,323)**	(25,774)
Income tax recovery (expense)	**(185)**	367
Net loss	**(28,508)**	(25,407)
Other comprehensive income (loss) (note 7)		
Items that are or may be reclassified subsequently to net loss, net of taxes:		
Change in fair value of cash flow hedges	**(71)**	1,890
Reclassification of realized gain	**(443)**	(242)
Foreign currency translation adjustment	**120**	(134)
Other comprehensive income (loss)	**(394)**	1,514
Total comprehensive loss	**(28,902)**	(23,893)
Net loss per common share (note 12)		
Basic	**$(1.02)**	$(0.91)
Diluted	**$(1.02)**	$(0.91)

See accompanying notes

consolidated statements of changes in equity (deficit)

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity (Deficit)
Balance, April 2, 2022	227,090	14,618	(213,403)	(485)	27,820
Net loss for the period	–	–	(25,407)	–	(25,407)
Share-based compensation (note 10)	–	243	–	–	243
Cash flow hedges (note 7)	–	–	–	1,648	1,648
Foreign currency translation adjustment	–	–	–	(134)	(134)
Balance, July 2, 2022	227,090	14,861	(238,810)	1,029	4,170
Balance, April 1, 2023	**227,094**	**15,463**	**(262,969)**	**435**	**(19,977)**
Net loss for the period	–	–	(28,508)	–	(28,508)
Exercise of options (note 9)	243	(66)	–	–	177
Share-based compensation (note 10)	–	129	–	–	129
Cash flow hedges (note 7)	–	–	–	(514)	(514)
Foreign currency translation adjustment	–	–	–	120	120
Balance, July 1, 2023	**227,337**	**15,526**	**(291,477)**	**41**	**(48,573)**

See accompanying notes

consolidated statements of cash flows

(Unaudited)

(thousands of Canadian dollars)	13-week period ended July 1, 2023	13-week period ended July 2, 2022
OPERATING ACTIVITIES		
Net loss	**(28,508)**	(25,407)
Adjustments to reconcile net loss to cash flows used for operating activities		
Depreciation of property, plant, and equipment	**3,714**	3,976
Depreciation of right-of-use assets	**10,272**	10,479
Amortization of intangible assets	**2,136**	2,736
Loss on disposal of capital assets	**–**	6
Share-based compensation (note 10)	**129**	243
Deferred income tax expense (recovery)	**185**	(367)
Other	**(320)**	(152)
Net change in non-cash working capital balances related to operations (note 13)	**(13,907)**	(15,077)
Interest expense (note 8)	**6,529**	6,357
Interest income	**(314)**	(178)
Cash flows used for operating activities	**(20,084)**	(17,384)
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment	**(2,172)**	(2,091)
Addition of intangible assets	**(5,028)**	(6,024)
Interest received	**314**	178
Cash flows used for investing activities	**(6,886)**	(7,937)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 8)	**(10,841)**	(11,636)
Interest paid (note 8)	**(6,529)**	(6,357)
Proceeds from share issuances	**177**	–
Cash flows used for financing activities	**(17,193)**	(17,993)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**275**	13
Net decrease in cash and cash equivalents during the period	**(43,888)**	(43,301)
Cash and cash equivalents, beginning of period	**65,113**	86,469
Cash and cash equivalents, end of period	**21,225**	43,168

See accompanying notes

notes to consolidated financial statements

July 1, 2023
(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. 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 2023 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 2023 Annual Report.

These unaudited interim condensed consolidated financial statements for the 13-week period ended July 1, 2023 (including comparatives) were approved by the Board of Directors on August 10, 2023.

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 2023 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.

Accounting Standards Implemented in Fiscal 2024

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. The Company assessed the impact of the amendment and determined that there is no material impact on the unaudited interim condensed consolidated financial statements.

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, 2024. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

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-week periods ended July 1, 2023 and July 2, 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 July 1, 2023**	As at July 2, 2022	As at April 1, 2023
Cash	**19,264**	39,267	63,981
Restricted cash	**1,933**	3,873	1,104
Cash equivalents	**28**	28	28
Cash and cash equivalents	**21,225**	43,168	65,113

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

6. Inventories

The cost of inventories recognized as an expense during the 13-week period ended July 1, 2023 was $101.0 million (2023 — $116.3 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserves and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13-week period ended July 1, 2023 was $1.8 million (2023 — $2.8 million). The amount of inventory with net realizable value equal to cost was $5.9 million as at July 1, 2023 (July 2, 2022 — $3.5 million).

7. Derivative Financial Instruments

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

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

During the 13-week period ended July 1, 2023, the Company did not enter into any new contracts to purchase U.S. dollar/Canadian dollar currency forwards (2023 — C$78.6 million). As at July 1, 2023, the Company did not have any remaining contracts in place (July 2, 2022 — C$124.4 million at an average forward rate of 1.28, resulting in the recognition of a derivative asset of $1.4 million and a derivative liability of below $0.1 million). These contracts extend over a period not exceeding 12 months.

During the 13-week period ended July 1, 2023, the Company had net losses (net of taxes) of less than $0.1 million from the change in fair value of outstanding cash flow hedges (2023 — net gains (net of taxes) of $1.9 million). During the same period, the Company reclassified net gains (net of taxes) from settled contracts out of other comprehensive income (loss) to inventory and expenses of $0.4 million (2023 — net gains (net of taxes) of $0.2 million).

This resulted in an other comprehensive loss of $0.5 million for the 13-week period ended July 1, 2023 (2023 — other comprehensive income of $1.6 million).

Potential causes of mismatch between the hedging instrument and hedged item that would generate ineffectiveness include changes in credit risk, a timing mismatch between the maturity of the instrument and the future transaction date, and/or the hedged transaction does not occur. Reclassified amounts resulting from hedge ineffectiveness, as well as any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 13-week periods ended July 1, 2023 and July 2, 2022.

8. Lease Liability

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Balance, beginning of period	**497,445**	517,184
Lease modifications included in the scope of IFRS 16	**4,324**	(1,499)
Interest expense on lease liabilities	**6,529**	6,357
Repayment of interest and principal on lease liabilities	**(17,370)**	(17,993)
Foreign currency adjustment	**(505)**	841
Balance, end of period	**490,423**	504,890

9. Share Capital

Share capital consists of the following:

	13-week period ended July 1, 2023		13-week period ended July 2, 2022		52-week period ended April 1, 2023	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,352,711**	**227,094**	27,349,711	227,090	27,349,711	227,090
Issued during the period						
Options exercised	**177,100**	**243**	–	–	3,000	4
Balance, end of period	**27,529,811**	**227,337**	27,349,711	227,090	27,352,711	227,094

10. Share-Based Compensation

As at July 1, 2023, 2,667,150 stock options were outstanding with exercise prices ranging from $1.00 to $14.75. Of these outstanding stock options, 1,722,900 were exercisable at a weighted average exercise price of $4.90. As at July 2, 2022, there were 2,748,250 stock options outstanding, 2,089,750 of which were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13-week period ended July 1, 2023, the pre-forfeiture value of options granted was below $0.1 million (2023 — below $0.1 million).

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

	13-week period ended July 1, 2023	13-week period ended July 2, 2022
Black-Scholes option pricing assumptions		
Risk-free interest rate	**4.4%**	3.0%
Expected volatility	**57.0%**	70.2%
Expected time until exercise	**2.5 years**	2.5 years
Expected dividend yield	**—**	—
Other assumptions		
Forfeiture rate	**24.4%**	24.1%

Directors' Compensation

The Company had a Directors' Deferred Stock Unit Plan ("legacy DSU Plan") for Directors' annual retainer fees and other Board-related compensation up to the end of fiscal 2021. Pursuant to the legacy DSU Plan, participating Directors annually elected whether to receive these fees in the form of equity-settled deferred stock units ("legacy DSUs"), or to receive up to 50% of this compensation in cash. The Company ceased issuing DSUs under this plan in fiscal 2022; however, legacy DSUs issued and outstanding under this plan have not been modified and the number of shares reserved for issuance under this plan continues to be 500,000. Upon the resignation of a participating director, each legacy DSU granted to such Director will be convertible into one common share of the Company. The fair value of legacy DSUs is equal to the traded price of the Company's common shares on the grant date, and recorded in contributed surplus until conversion. The grant date fair value of the outstanding legacy DSUs recorded in contributed surplus as at July 1, 2023 is $3.2 million (July 2, 2022 — $3.2 million).

The Company established a new Deferred Share Unit Plan for Cash Redemption ("New DSU Plan") on June 1, 2021, to grant cash-settled share-based instruments ("cash-settled DSUs") for participating Directors' annual retainer fees and other Board-related compensation for fiscal 2022 onwards. When exercised, participants will receive a payment in cash equal to the fair market value of the common shares represented by the cash-settled DSUs on the date of redemption. The New DSU Plan continues to allow participating Directors to annually elect to receive up to 50% of their compensation in cash. Cash-settled DSUs represent a liability, which is recorded in current liabilities on the Consolidated Balance Sheets at an IFRS 2 fair value. The fair value of the cash-settled DSUs is equal to the grant date closing price of the Company's common shares on the Toronto Stock Exchange, and subsequently remeasured to the closing price of the shares on the last trading date of the reporting period. All changes to the fair value of the cash-settled DSUs are recorded in the consolidated statements of loss and comprehensive loss.

All Directors' compensation during the 13-week period ended July 1, 2023 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2023 — all cash-settled, with the exception of cash awards of less than $0.1 million).

The Company issued 138,720 cash-settled DSUs with a value of $0.2 million during the 13-week period ended July 1, 2023 (2023 — 47,998 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 July 1, 2023 is $0.9 million (July 2, 2022 — $0.2 million). During the 13-week period ended July 1, 2023, the Company recorded a change of less than $0.1 million to the fair value of cash-settled DSU obligations (July 2, 2022 — less than $0.1 million).

11. Supplementary Operating Information

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Print[1]	**101,727**	116,001
General merchandise[2]	**66,694**	79,817
Other[3]	**10,750**	8,738
Total	**179,171**	204,556

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

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

3 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, sublease revenue and Rakuten Kobo Inc. ("Kobo") revenue share.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	13-week period ended July 1, 2023	13-week period ended July 2, 2022
Superstores[1]	**110,710**	123,847
Small format stores[1]	**19,431**	20,119
Online (including store kiosks)	**38,280**	51,852
Other[2]	**10,750**	8,738
Total	**179,171**	204,556

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

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	13-week period ended July 1, 2023	13-week period ended July 2, 2022
Wages, salaries, and bonuses	**37,065**	44,622
Short-term benefits expense	**5,974**	4,733
Termination benefits expense	**1,538**	2,004
Retirement benefits expense	**468**	551
Share-based compensation	**129**	243
Total employee benefits expense	**45,174**	52,153

Termination benefits arise when the Company terminates certain employment agreements.

12. Loss Per Share

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the July 1, 2023 and July 2, 2022 diluted loss per share calculations.

13. Statements of Cash Flows

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Accounts receivable	**(1,113)**	(2,462)
Inventories	**(16,421)**	(14,335)
Prepaid expenses	**(762)**	5,537
Other assets	**(386)**	1,602
Accounts payable and accrued liabilities (current and long-term)	**5,409**	(8,113)
Unredeemed gift card liability	**(372)**	1,925
Provisions (current and long-term)	**79**	101
Deferred revenue	**(341)**	668
Net change in non-cash working capital balances	**(13,907)**	(15,077)

14. Related Party Transactions

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, subsidiaries and, in prior years, equity investments in associates. Unless otherwise noted, none of the Company's related party transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with Key Management Personnel

Key management of the Company includes members of the Board of Directors, as well as members of the Executive Team. Key management personnel remuneration includes the following:

(thousands of Canadian dollars)	**13-week period ended July 1, 2023**	13-week period ended July 2, 2022
Wages, salaries, and bonuses	**1,402**	2,545
Short-term benefits expense	**197**	184
Termination benefits expense	**–**	860
Retirement benefits expense	**19**	17
Share-based compensation	**93**	152
Directors' compensation	**56**	87
Total remuneration	**1,767**	3,845

Transactions with Shareholders

During the first quarter of fiscal 2024, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In the first quarter of fiscal 2024, the Company paid below $0.1 million for these transactions (2023 — $0.1 million). As at July 1, 2023, Indigo had nominal amounts payable to these companies under standard payment terms (July 2, 2022 — $0.1 million). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

Subsequent to July 1, 2023, the Company entered into a revolving line of credit facility with Trilogy Retail Holdings Inc. (“Trilogy”), as lender (the “Credit Facility”). Trilogy is controlled by Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo. For more information, see note 15 “Subsequent Events”.

Transactions with Defined Contribution Retirement Plan

The Company’s transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 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-week period in the prior year.

15. Subsequent Events

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

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