Indigo

ANNUAL REPORT FOR THE 53-WEEK PERIOD ENDED APRIL 3, 2021

The Indigo Mission

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

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

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Report of the CEO

Dear Shareholder,

It is my pleasure to be writing to you to with a review of the year just passed, to share the results, and to provide some perspective on the year ahead.

It is almost redundant to note that 2020 will go down in history as a watershed year. A year to remember and a year which will serve to transform so much of who we are. Each of us will long remember where we were and how we navigated the year the COVID-19 pandemic stopped the world.

For Indigo, as with any customer-facing businesses, the challenges began the first day we were asked to close and continued to come at us, month after month. As I write this note for our Fiscal 2021 Annual Report, we are well into the first quarter of our new year. At this moment we remain in retail lockdown in several areas of Canada and with business constrained in most areas where our retail stores are open.

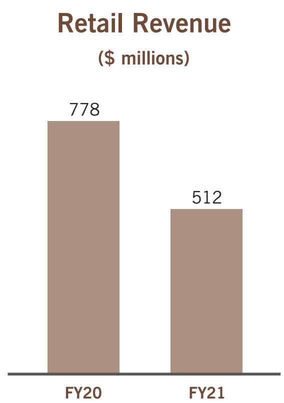
To put this in clearer context – for almost half the year being addressed in this report and including the all-important holiday period, many of our stores were closed or highly limited.

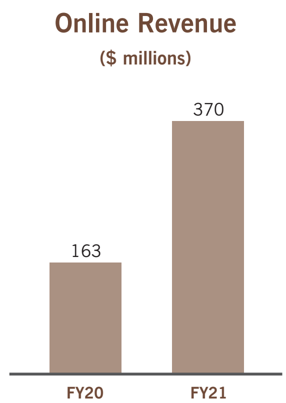
The most important thing I want to share is this. Notwithstanding the relentless onslaught of challenges, the Indigo team demonstrated incredible resilience and resourcefulness. People make a business – and the ability to adapt and be ready for the recovery is totally dependent on dedication and passion to succeed. On this key metric, Indigo has much to be proud of.

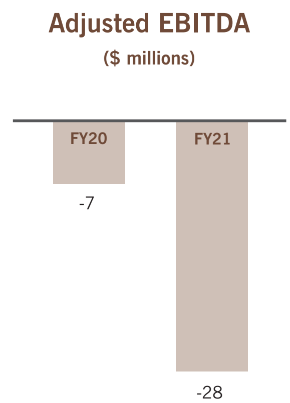
Equally worth noting – our customers, for the most part, adapted with us and with the demands of the times, interacting with us as much as possible through indigo.ca. While we could not fully make up the lost sales created by the enormous impact of closures and limitations across all our 177 stores, we were able to significantly blunt the impact.

Less satisfying, in a year when we fully expected to return to profitability, the combined cost of the sales losses and the costs associated with many elements of operating in this environment resulted, as it has for so many companies, in a loss for this year.

Some key operating metrics of the year:







On adjusting to pandemic requirements

Over the course of the year, we implemented a very well received Express Pick-Up experience to allow customers to shop online and pick up at the store door or curbside. This capability will remain valuable to our business long into the future.

Anticipating government-mandated occupancy restrictions, we successfully pulled forward a good portion of holiday sales. Originally these events were planned to take pressure off our stores in the last weeks leading to holiday when our shops are typically chock-a-block. As it turned out, due to actual shut-downs, this strategy was hugely helpful.

In addition, we did a number of things to quickly adapt to unprecedented spikes in online volumes, and implemented highly effective protocols in all stores and warehouses to ensure full safety of our employees and our customers. It is worth noting that our efforts in this regard resulted in our receiving the highest ratings on our environments from public health officials and having no outbreaks originate in any of our premises.

Other significant items in the year

During the year we created an expanded President role in anticipation of the growth ambitions we have for Indigo. After an intensive search we were successful in recruiting Peter Ruis to fill the position. Peter brings to Indigo deep executive retail and e-commerce experience gained at John Lewis, Jigsaw Group and Anthropologie where he led periods of exceptional growth.

We also launched a fulsome Diversity and Inclusion Strategy in partnership with the Canadian Centre for Diversity and Inclusion ("CCDI") and committed to The 15% Pledge.

Of particular note – Early in the year we kicked off a multi-year sustainability initiative titled *Write The Future*, and committed to be a net zero enterprise by 2035. An early and important element of this work relates to our own branded product. By the end of 2024 we expect all products under our nóta™ paper brand, our *OUI* home brand, and our LOVE & LORE® fashion brand to be fully sustainable.

A more detailed discussion of *Write The Future* can be found on www.indigo.ca.

Looking forward

While it has without doubt been a very difficult year – for those leading and working in our stores, for everyone in the Home Office and in our warehouses, and of course in terms of bottom line – I want to confirm that we have the strongest confidence in our future.

Indigo remains our customers' "happy place", a cherished Canadian brand uniquely positioned to meet the customer exactly where he/she/they are. That our aggregate sales only dropped by 5.5% notwithstanding all the store closures and constraints is confirmation of this fact.

We have a clear vision for the business and a thoughtfully developed strategic roadmap. We are poised to ignite growth, profitability and shareholder value. This is our commitment to you, our shareholders, and to all those within Indigo.

In closing I want to take this public opportunity to call out the incredible people who make up the Indigo organization. The passion, resilience, energy and the caring which each and every person brought to work every day is the very heart of Indigo. As I shared often in my calls and letters to our employees over the past 15 months – I am the luckiest CEO in the world to get to work with this group of people.

As a shareholder, alongside all of you, I want to take this moment to express our deepest gratitude to the Indigo team.

Here is to COVID-19 being fully behind us all very soon and to experiencing within Canada the kind of rebound we are seeing in those countries now fully open.

Stay well and I look forward to writing to you in this Report next year.

Heather Reisman

Heather Reisman
Chair and Chief Executive Officer

Management's Responsibility for Financial Reporting

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

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

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

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

Heather Reisman
Chair and Chief Executive Officer

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

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at June 1, 2021 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 53-week period ended April 3, 2021 and 52-week period ended March 28, 2020. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein. These statements reflect the adoption of IFRS 16 Leases on March 31, 2019, using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, and no restatement of the prior comparative period.

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

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness, and lifestyle products that support customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores (2020 – 88) under the *Indigo* and *Chapters* names, as well as 89 small format stores (2020 – 108) under the banners *Coles*, *Indigospirit*, and *The Book Company*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

Throughout fiscal 2021, the Company employed an average of approximately 5,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of $904.7 million. The Company is inclusive of its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its 20% equity investment in Unplug Meditation, LLC ("Unplug").

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

Statement on COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and then characterized the outbreak as a pandemic on March 11, 2020. Shortly thereafter, numerous jurisdictions declared states of emergency and imposed restrictions such as closures, quarantine policies and social distancing measures, negatively impacting the Company's retail operations, distribution centres, and head office operations. During this period, the communicable disease spread globally, with active outbreaks continuing in communities across Canada and the United States.

The Company undertook the following actions in fiscal 2021:

- Participated in rolling closures of its retail network, as directed by local governments and public health authorities, commencing on March 17, 2020 and continuing throughout fiscal 2021. This included extensive closures during the peak holiday sales season, with province wide closures in Ontario, Quebec and Manitoba by the end of the Company's third quarter.
- Recognized $15.5 million of COVID-19 occupancy expense abatement as a direct response to the economic impact of the COVID-19 pandemic, including amounts recognized in accordance with the IFRS 16 *Leases* ("IFRS 16") practical expedient for COVID-19 rent concessions. The Company continues to negotiate with landlords regarding abatement to share the financial burden of COVID-19.
- Applied for the Canada Emergency Rent Subsidy ("CERS") program and recognized rent subsidies of $1.1 million.
- Applied for the Canada Emergency Wage Subsidy ("CEWS") program and recognized payroll subsidies of $27.4 million.
- Reduced forward inventory purchases and processed returns on unproductive book purchases to suppliers at full credit, while maintaining an optimized assortment.
- Accelerated its digital road map and launched curbside pick-up and a partnership with Instacart to alleviate demand on the Company's distribution centres, and to protect the health and safety of the Company's customers, employees and communities.
- In response to capacity constraints at national carriers due to sustained e-commerce delivery volumes, in particular throughout the holiday period, the Company significantly increased the number and network of parcel carriers it employs to deliver e-commerce orders.
- Entered into a $25 million related party revolving line of credit to enhance the Company's liquidity. No advances were made on the non-interest bearing facility, which matured on February 1, 2021.
- Regularly reviewed the Company's COVID-19 protocols, at times implementing practices above the standards set out by public health authorities, in response to the rising COVID-19 cases across several regions and the beginning of our critical holiday period. These include enhanced cleaning and social distancing protocols, mandatory masks for all employees and customers, the closure of washrooms in stores, and temperature checks across all the Company's distribution centres, among others.

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

Future Developments

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

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

The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impact of the COVID-19 outbreak on the Company. Given this unprecedented period of uncertainty, there can be no assurances regarding: the closure status of retail locations as a result of COVID-19; the COVID-19-related impacts on the Company's business, operations and performance; credit, foreign currency, and liquidity risks generally; and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company. Investors should also refer to the risks described below under "Risks and Uncertainties".

General Development of the Business

Since 1997, Indigo has been its customers' self-declared "Happy Place" – today, it is a rich environment filled with books, toys, gifts, wellness and lifestyle products, and the creative, service obsessed people who help make it all happen. Indigo has always believed in living life fully and generously, in being kind to each other and to the environment, and that stories – big and little – really do connect us all to each other.

Indigo is on a mission to support their customers and employees, every day and at key life stages by simplifying their journey to live with intention. With a meaningfully curated assortment and expert advice from the Indigo team, the Company's operating principles endeavour to empower customers to actively identify what they value the most and supporting them to live in alignment to those values. As the retail landscape has shifted over the past two decades, Indigo's leading in-store and digital experience has evolved to align to the changing needs of its employees, customers, and the communities we serve.

The Company's priorities over the past three years and key strategies moving forward include offering a meaningful and curated assortment of products, driving a customer inspired retail transformation, redefining Indigo's digital presence and developing a high performing and engaged organization.

Offer a Meaningful and Curated Assortment

Indigo celebrates culture-makers and creators including authors, artists, designers, chefs, musicians, and thought leaders. For consumers looking to invest in the well-being and betterment of themselves and their loved ones, Indigo is a retailer that provides access to the books, products, and community that support them in their journey. With books at the core, Indigo leverages a global network of authors and industry experts to provide a trusted one-stop shopping experience as a partner through all of life's key moments – from baby's first steps to graduation, first home to the empty nest. All provided with a combination of thoughtful curation, extraordinary convenience, and world class service.

Indigo's meaningfully curated assortment is supported by the Company's design and global sourcing teams that lead the creative development of Indigo's proprietary merchandise. In fiscal 2020, to further integrate the design and global sourcing teams and enhance its proprietary offerings, the Company closed its New York design studio and relocated the design and global sourcing functions to Indigo's head office in Toronto. In fiscal 2021, the Company successfully expanded its proprietary brands, which now include OUI STUDIO™ and OUI Design (collectively "OUI"), Auria™, LOVE & LORE®, nóta™, Wonder Co.™, Mini Maison™, and The Littlest™. These brands extend across the Living, Wellness, Fashion, Paper, Kids and Baby categories. The Company is committed to adapting and improving its proprietary product development capability, as well as expanding its curated assortment of coveted third-party brands.

Drive a Customer Inspired Retail Transformation

Commencing in 2017, the Company began transforming its physical stores as part of the rollout of a new store concept, with a focus on being a truly inspirational destination. Indigo's stores reflect its transformation from a bookstore to a *Living with Intention*™ hub; a physical and digital meeting place inspired by and filled with books, music, art, ideas, and beautifully designed lifestyle products.

The distinction between physical retail and digital retail has evolved and customers expect to have a seamless experience with the Indigo brand, regardless of channel. Recognizing this, the Company is continuing to focus on digital innovation and an exceptional customer experience, that meets them where they are. In fiscal 2020, the Company launched an express pick-up checkout solution, which allows customers to order online and pick up their order in store within the same day. Fiscal 2021 saw meaningful investment in this express pick-up solution to broaden its functionality and provide a more intuitive checkout experience, and it has become a critical delivery solution through the COVID-19 pandemic. In the past year, the Company also launched curbside pick-up to allow for contactless sales transactions and commenced a partnership with Instacart where customers can have their orders delivered in less than two hours in the markets that Instacart services.

In fiscal 2019 and 2020, the Company opened four new stores and renovated or rebranded 16 stores in order to improve the customer experience and product offerings across key categories. This included the opening of a store in Short Hills, New Jersey, to gather learnings regarding American customers' engagement with the Indigo brand. In fiscal 2021, in light of COVID-19, the Company accelerated its review of its real estate portfolio and closed 20 small format stores. The Company will continue to assess how the impacts of COVID-19 will reshape the physical retail landscape to reimagine the Indigo store of the future.

Redefine Indigo's Digital Presence

In addition to reshaping Indigo's physical store offerings, the Company continues to invest heavily in its digital platforms and digital presence, to bring inspirational content and product to customers with a best-in-class shopping experience.

Over the past three years, the Company's digital sales platforms have advanced dramatically, offering customers an improved and simplified shopping experience. The digital channels offer customers access to over 15 million book titles, along with a meaningful curated assortment of general merchandise, all to simplify the customers' journey to *Living with Intention*™. To achieve this, the Company expanded the Calgary distribution centre in 2020 to better serve online customers in Western Canada and launched a new product information management system to provide the foundation for an enhanced digital experience. The COVID-19 pandemic has placed limitations on the Company's ability to conduct business as normal and has accelerated existing plans for digital modernization. The abrupt pivot to digital across the entire organization included optimizing the website experience, customer service automation, enhancing an express pick-up offering, and expanding the Ontario distribution centre to manage increased online order volume, among others. Ultimately, the Company has focused on providing customers safe and efficient access to the products that bring them joy during these difficult times.

Optimizing the Company's *plum*® loyalty program continues to be a key focus of the business. The Company has a two-tiered loyalty program: *plum*®, a free points-based tier; and *plum*® PLUS, an annual fee-based tier which was launched on a national scale in fiscal 2020, replacing the Company's *irewards*® program. As an annual fee-based program, *plum*® PLUS offers free shipping, member discounts, and exclusive offers as incremental benefits to the redeemable points offered on almost all products purchased. This membership tier has delivered on engaging Indigo's best customers, in addition to driving frequency and a meaningful lift in average transaction values. The success of this program continues to deepen the Company's understanding of its customers, as well as offers direct marketing and other compelling communication opportunities. Going forward, the Company will continue to strengthen its capabilities to personalize each member touch point, providing a rich omni-channel shopping experience.

In the third quarter of fiscal 2020, Indigo launched *www.thoughtfull.co*, a gifting site dedicated to helping customers find unique and meaningful gifts. Thoughtfull™ provides a last-minute gifting solution with digitally fulfilled delivery for its assortment of giftable experiences, services, and subscriptions. In fiscal 2021, Thoughtfull™ has continued to be a platform to virtually service customers, while providing further insight to the Company about customers' experiential purchasing patterns.

With a focus on inspiring and attracting customers, the Company has built a strong social media presence across Facebook, Instagram, LinkedIn, Pinterest, Twitter, and TikTok, with over half a million followers on Facebook and over 400,000 on Instagram. Some of the locations in the Company's retail network have their own community social profiles, which further enhances customer engagement. In fiscal 2021, the Company launched a podcast titled Well Said, connecting customers to the trusted voices in well-being to hear meaningful conversations about the art and science of living well to help them live with purpose and intention.

Develop a High Performing, Engaged Organization

While a key focus of the Company's business is evolving to meet the emerging needs of customers, Indigo is also focused on becoming the best rewarding retail employer in Canada. The Company's continued evolution and new business strategies are supported by driving a high-performance growth culture and aspiring for operational excellence.

The Company's ambition is to be the best rewarding retail employer, not only in pay, but in a holistic view of the employment relationship that includes a sense of purpose, meaningful relationships, benefits, and flexible work opportunities. This Company-wide initiative focuses on driving engagement, high performance, and operational excellence, while removing inefficiency from the Company's work processes. The Company is focusing on the development of high-performing teams where individuals are encouraged to chart their own career paths and apply their strengths to meaningful work, allowing them to bring their best selves to work. This work involves partnerships across all areas of the Company and is expected to continue to evolve over the next several years.

In fiscal 2021, Indigo continued to attain a record-high employee engagement score of 87%, as well as receiving external acknowledgment of its positive employee and customer experience. Indigo received a Diversity and Inclusion award in 2019 from Universum, an organization that annually surveys over 1,700,000 students and professionals worldwide. For the 2019 Canada edition of the award, 23,000 students from more than 150 Canadian colleges and universities were asked to rank employers on Universum's Diversity & Inclusion Index. Indigo ranked in the top 25 out of 140 employers from different industries in both the Business and Liberal Arts/Humanities categories. This award recognizes companies perceived by students across Canada to be the most diverse and inclusive employers in the country.

Indigo's high performing teams' resilience and strong embodiment of the Company's values allowed the business to successfully respond to the ever-evolving challenges introduced by COVID-19 in fiscal 2021.

Results of Operations

The following three tables summarize selected financial and operational information for the Company. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the consolidated financial statements for the 53-week period ended April 3, 2021 and 52-week periods ended March 28, 2020 and March 30, 2019.

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

(millions of Canadian dollars)	53-week period ended April 3, 2021	% Revenue	52-week period ended March 28, 2020	% Revenue
Revenue	**904.7**	**100.0**	957.7	100.0
Cost of sales	**(567.9)**	**62.8**	(553.6)	57.8
Cost of operations	**(212.8)**	**23.5**	(255.6)	26.7
Selling, general and administrative expenses	**(83.6)**	**9.2**	(90.1)	9.4
Depreciation of right-of-use assets	**(43.0)**	**4.8**	(40.1)	4.2
Finance charges related to leases	**(25.7)**	**2.8**	(25.6)	2.7
Adjusted EBITDA[1]	**(28.3)**	**3.1**	(7.3)	0.8
Depreciation of property, plant and equipment	**(17.2)**	**1.9**	(23.0)	2.4
Amortization of intangible assets	**(12.9)**	**1.4**	(13.4)	1.4
Gain (loss) on disposal of capital assets and equity investments	**0.8**	**0.1**	(0.4)	–
Impairment losses	**–**	**–**	(56.6)	5.9
Net interest income	**0.9**	**0.1**	2.1	0.2
Share of loss from equity investments	**(0.2)**	**–**	(1.7)	0.2
Loss before income taxes	**(56.9)**	**6.3**	(100.3)	10.5

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. 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.

Adjusted EBITDA includes certain impacts of IFRS 16, which represents a change in calculation methodology from fiscal 2020. Fiscal 2020 numbers have been consistently stated. For further information regarding this metric refer to "Non-IFRS Financial Measures".

A reconciliation of adjusted EBITDA to loss before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

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

(millions of Canadian dollars, except per share data)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020	52-week period ended March 30, 2019[1]
Revenue			
Superstores	**439.8**	655.8	711.4
Small format stores	**72.6**	122.1	144.8
Online	**370.0**	162.7	175.9
Other	**22.3**	17.1	14.7
	904.7	957.7	1,046.8
Loss before income taxes	**(56.9)**	(100.3)	(49.6)
Income tax recovery (expense)	**(1.0)**	(84.7)	12.8
Net loss	**(57.9)**	(185.0)	(36.8)
Total assets	**799.5**	883.0	610.5
Lease liabilities (including current portion)	**550.3**	568.6	–
Working capital	**46.1**	85.2	164.1
Basic loss per common share	**$(2.09)**	$(6.72)	$(1.35)
Diluted loss per common share	**$(2.09)**	$(6.72)	$(1.35)

1 The Company implemented IFRS 16 *Leases* on March 31, 2019 using the modified retrospective approach. As a result, the Company's fiscal 2020 and 2021 results reflect lease accounting under IFRS 16, while fiscal 2019 has not been restated.

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

	53-week period ended April 3, 2021	52-week period ended March 28, 2020	52-week period ended March 30, 2019
Stores Opened			
Superstores	–	–	4
Small format stores	1	–	–
	1	–	4
Stores Rebranded, Relocated, or Renovated			
Superstores	–	3	13
Small format stores	–	–	–
	–	3	13
Stores Closed			
Superstores	–	1	1
Small format stores	20	7	8
	20	8	9
Number of Stores Open at Year-End			
Superstores	88	88	89
Small format stores	89	108	115
	177	196	204
Selling Square Footage at Year-End (in thousands)			
Superstores	1,941	1,941	1,962
Small format stores	231	279	287
	2,172	2,220	2,249

Revenue

Total consolidated revenue for the 53-week period ended April 3, 2021 decreased $53.0 million or 5.5% to $904.7 million from $957.7 million for the 52-week period ended March 28, 2020. This includes the impact of one additional week of revenue for the 53-week period in fiscal 2021, which amounted to $15.3 million. On a normalized 52-week basis, total revenue decreased 7.1% compared to the same period last year. The decrease in revenue was contained to a single-digit percentage decline, reflecting the Company's successful efforts to mitigate the adverse impact of COVID-19. Exceptional growth in the online channel softened the impact of the COVID-19 disruption, as temporary store closures and severe capacity restrictions drove a decline in the retail channel. Strong demand for the core categories of reading, wellness, and at-home learning and entertainment stabilized the Company's base business, while the successful launch of its new proprietary *OUI Design* lifestyle brand demonstrated customers' receptiveness to an expanded assortment.

Online revenue increased by $207.3 million or 127.4% to $370.0 million for the 53-week period ended April 3, 2021 compared to $162.7 million in the prior year. On a normalized 52-week basis, online revenue increased 124.5%. Due to the noted government closures and capacity restrictions, the Company converted a significant number of existing retail customers to its digital platforms, as well as acquired a new online customer base, earning a total of over one million customers new to the online channel in fiscal 2021. Together with improvements in average order values, this growth well-positions the Company to capitalize on tailwinds from the e-commerce momentum initiated by the global pandemic. The Company also notably managed peak online order volumes throughout the year, while implementing COVID-19 social distancing and other leading safety measures.

Retail revenue, which is inclusive of orders fulfilled through omnichannel express pick-up, decreased by $265.5 million or 34.1% to $512.4 million for the 53-week period ended April 3, 2021 compared to $777.9 million in the prior year. On a normalized 52-week basis, retail revenue decreased 35.5%. The decline in retail revenue was a result of rolling store closures in key geographic regions and the other ongoing impacts of COVID-19, which drove a significant decline in traffic. To provide further context on the severity of these disruptions, most stores in the Greater Toronto Area faced COVID-19 closures for approximately six months, inclusive of the traditional holiday sales period. Promotional events were successfully pulled forward and the Company's omnichannel express pick-up capabilities reached a peak of over 35% of e-commerce demand in late December, absorbing some of the impact of closures during these critical holiday sales weeks. As anticipated, opened stores saw softer traffic than pre-pandemic levels, with COVID-19 continuing to have effects on shopping behaviour.

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 strict social distancing requirements limiting capacity in stores upon reopening, the Company believes that comparable sales are not currently representative of the underlying trends of its business. Due to the diminished relevance of this key performance indicator, comparable sales is not further discussed in this report.

Revenue from other sources includes Indigo café revenue, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed *plum*® points ("*plum* breakage"), *plum*® PLUS membership fees ("*plum* PLUS revenue"), irewards card sales, corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $5.2 million or 30.4% to $22.3 million for the 53-week period ended April 3, 2021 compared to $17.1 million in the prior year. On a normalized 52-week basis, revenue from other sources increased 29.2%, driven by *plum*® PLUS revenue as more customers joined the paid loyalty tier.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020	% increase/ (decrease)
Superstores[1]	**439.8**	655.8	(32.9)
Small format stores[1]	**72.6**	122.1	(40.5)
Online (including store kiosks)	**370.0**	162.7	127.4
Other[2]	**22.3**	17.1	30.4
Total	**904.7**	957.7	(5.5)

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

Revenue by channel normalized for a 52-week basis is highlighted below:

(millions of Canadian dollars)	**53-week period ended April 3, 2021**	Week 53 Revenue	**52-week period ended April 3, 2021**	52-week period ended March 28, 2020	% increase/ (decrease)
Superstores[1]	**439.8**	8.9	**430.9**	655.8	(34.3)
Small format stores[1]	**72.6**	1.5	**71.1**	122.1	(41.8)
Online (including store kiosks)	**370.0**	4.7	**365.3**	162.7	124.5
Other[2]	**22.3**	0.2	**22.1**	17.1	29.2
Total	**904.7**	15.3	**889.4**	957.7	(7.1)

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

Revenue by product line is as follows:

	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Print[1,4]	**58.4%**	56.3%
General merchandise[2,4]	**39.2%**	41.9%
Other[3]	**2.4%**	1.8%
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 Indigo cafés, irewards, gift card breakage, *plum*® breakage, *plum* PLUS revenue, corporate sales, and Kobo revenue share.
4 Certain comparative information relating to eReaders has been reclassified to conform to the current year's presentation.

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 $14.3 million to $567.9 million for the 53-week period ended April 3, 2021, compared to $553.6 million for the 52-week period ended March 28, 2020. As a percentage of total revenue, cost of sales increased 5.0% to 62.8% compared to 57.8% in the prior year.

Excluding the impact of online shipping costs, cost of sales decreased by $22.1 million to $505.8 million for the 53-week period ended April 3, 2021, compared to $527.9 million for the 52-week period ended March 28, 2020. As a percentage of total revenue, this represents an increase of only 0.8% to 55.9% compared to 55.1% in the prior year. This change reflects the substantial shift to the online channel, which saw sales penetration more than double in light of rolling store closures and overall reduced store traffic in response to COVID-19. While the online channel provides a lower margin than retail, efficiencies realized to the Company's online fulfillment process, stronger inventory management, and lower online promotional activity led to the strongest merchandise margin rate performance (excluding the impact of shipping costs) in the channel's history. Retail margin rate performance remained flat to last year, highlighting the Company's ability to generate full-price sell-through in this challenging retail climate.

Online shipping costs increased by $36.4 million to $62.1 million for the 53-week period ended April 3, 2021, compared to $25.7 million for the 52-week period ended March 28, 2020, reflecting the substantial growth in the Company's online channel.

The Company remains focused on long-term strategies to optimize margin, efforts which were furthered by the accelerated shift toward e-commerce across the retail industry.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased by $42.8 million to $212.8 million for the 53-week period ended April 3, 2021, compared to $255.6 million in the prior year. As a percent of total revenue, cost of operations decreased 3.2% to 23.5% compared to 26.7% in the prior year. The Company realized $15.5 million in reductions to its cost of operations relating to COVID-19 occupancy expense abatement, which is inclusive of amounts recognized in accordance with IFRS 16, and $1.1 million of reductions from rent subsidies from the CERS program. The Company also realized $15.4 million of benefit from the CEWS (partial benefit attributed to operating costs), which offset labour charges in the retail and online networks. Savings were furthered from labour efficiencies associated with store closures and volume declines throughout the Company's retail network and retail distribution centres. These cost containment efforts were partially offset by increased variable costs in the Company's online distribution network.

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 $6.5 million to $83.6 million for the 53-week period ended April 3, 2021, compared to $90.1 million in the prior year. As a percent of total revenue, selling, general and administrative expenses decreased 0.2% to 9.2% compared to 9.4% in the prior year. The Company also recognized $12.0 million of benefit from the CEWS (partial benefit attributed to selling, general and administrative expenses), which offset head office labour charges. Through an increased focus on cost containment during this COVID-19 economic climate, the Company also realized savings of $11.8 million in selling, general and administrative expenses. Specifically, this was achieved through the temporary reduction to paid marketing with an emphasis on bringing marketing costs in-house, a reduction in travel expenses, a rationalization to the head office workforce and more focused spend on strategic projects. These savings were partially offset by incentive compensation, which was not recognized in the prior year.

Lease Charges

Lease charges associated with IFRS 16 include the depreciation of the right-of-use assets, and finance charges associated with the lease liabilities. Lease charges increased by $3.0 million to $68.7 million for the 53-week period ended April 3, 2021, compared to $65.7 million in the prior year. The increase was primarily a result of the lease renewals recognized during the year, partially offset by negotiated IFRS 16 rent concessions and the impact of fiscal 2020 impairment charges.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA decreased by $21.0 million to a loss of $28.3 million for the 53-week period ended April 3, 2021, compared to a loss of $7.3 million in the prior year. Adjusted EBITDA, as a percent of total revenue, declined by 2.3% to a loss of 3.1% this year, compared to a loss 0.8% in the prior year.

Lower Adjusted EBITDA was driven by the top-line decline resulting from the impacts of COVID-19, including the rolling store closures experienced throughout fiscal 2021. However, the Company demonstrated its ability to pivot in response to the evolving pandemic conditions, evidenced by scaling operations in its online distribution centres to fulfill unprecedented demand, quickly launching an enhanced express pick-up experience with a contactless curbside offering and effectively pulling forward holiday sales in anticipation of retail business disruption. These executed efforts limited the potential COVID-19 impact to sales, and were delivered while maintaining a focus on improving core assortments and driving the Company's long-term strategy. The above noted impact on revenue to EBITDA was partially mitigated by a focus on optimizing margin and cost containment, the negotiated occupancy expense abatement recognized, and government support programs leveraged during the year.

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

Capital Assets

Depreciation and amortization of capital assets for the 53-week period ended April 3, 2021 decreased $6.4 million – to $30.0 million compared to $36.4 million in the prior year. The decrease in depreciation and amortization was driven by the impairment charge taken on capital assets in the prior year, which reduced the Company's capital asset base.

Capital expenditures in fiscal 2021 totaled $13.3 million compared to $10.6 million in the prior year. Capital investment made in the year was primarily to support the increased demand on the online channel. Capital expenditures for the current year included $9.2 million primarily for digital application software and internal development costs, $2.3 million for technology equipment and $1.8 million for furniture, fixtures, equipment, and leasehold improvements. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, decreased $1.2 million to $0.9 million for the 53-week period ended April 3, 2021, compared to $2.1 million in the prior year. The Company nets interest income against interest expense. Compared to the prior year, the Company earned lower interest income as a result of decreased interest rates, as well as the temporary discontinuation of its use of short-term investments to enhance liquidity during the ongoing COVID-19 pandemic.

Equity Investments

The Company uses the equity method to account for its investment in Unplug, and its previous investment in Calendar Club of Canada Limited Partnership ("Calendar Club"). The Company recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses.

The Company recognized a loss of $0.2 million from Unplug for the 53-week period ended April 3, 2021 compared to a loss of under $0.1 million in the prior year.

During fiscal 2020, the Company sold its equity investments in Calendar Club to Paris Southern Lights Inc. (a minority partner in the partnership). The financial impact of the transaction consisted of proceeds of $1.8 million, which generated a gain on the sale of $1.5 million. Prior to the sale, the Company recognized a net loss from Calendar Club of $1.6 million.

Income Taxes

The Company recognized a non-cash deferred income tax expense of $1.0 million for the 53-week period ended April 3, 2021, compared to recognizing a non-cash deferred income tax expense of $84.7 million in the prior year. Income taxes in the current year were impacted by the movement in cash flow hedges. In the prior year, the Company de-recognized the deferred tax asset balance, driving the material year-over-year change.

The decision to not recognize deferred tax assets was influenced by the Company's operating losses, and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors. As such, uncertainty exists surrounding the probability of sufficient taxable income being available to utilize all deferred tax assets within the time-line of management's forecasts. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carryforward, and other deferred tax assets which do not expire.

The Company's effective tax rate was (1.8)%, compared to (84.5)% in the prior year.

Net Loss

The Company recognized a net loss of $57.9 million for the 53-week period ended April 3, 2021 ($2.09 net loss per common share), compared to a net loss of $185.0 million ($6.72 net loss per common share) in the prior year.

In fiscal 2020, the Company recognized $56.6 million of impairment losses and a deferred tax expense of $84.7 million related to derecognizing the Company's deferred tax asset balance. Cycling over these items generated an increase in profitability in the current year. Excluding the impact of these items, the Company saw a decline in profitability in fiscal 2021 related to the top-line impact of COVID-19, partially offset by the previously discussed external COVID relief and cost saving measures implemented throughout the year.

Other Comprehensive Income

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

During the 53-week period ended April 3, 2021, the Company entered into contracts with total notional amounts of C$69.7 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$118.8 million in the prior year. As at April 3, 2021, the Company had remaining contracts in place representing total notional amounts of C$34.6 million and an unrealized net loss of $1.6 million, compared to total notional amounts of C$66.2 million and an unrealized net gain of $3.8 million as at March 28, 2020.

During the 53-week period ended April 3, 2021, the Company had net losses (net of taxes) from the change in fair value of outstanding cash flow hedges of $4.5 million, compared to net gains (net of taxes) of $2.5 million in the prior year. During the same respective periods, the Company reclassified net losses (net of taxes) from settled contracts of $0.1 million from other comprehensive loss to inventory and expenses, and net gains (net of taxes) of $0.5 million in the prior year.

The Company also recognized an other comprehensive loss of $0.1 million from foreign currency translation adjustments on consolidation of its foreign subsidiaries for the fiscal year ended April 3, 2021, compared to other comprehensive income of $0.4 million in the prior year.

These resulted in a total other comprehensive loss of $4.5 million for the 53-week period ended April 3, 2021, compared to other comprehensive income of $2.4 million in the prior year.

Seasonality and Fourth Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and earnings (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the holiday sales season. A disproportionate amount of revenues and earnings are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year. The impact of certain risks, as discussed in the "Risks and Uncertainties" section of this MD&A, would have a disproportionate impact to the Company's financial performance should any such events occur during the holiday sales season. For fiscal 2022, revenue and earnings (loss) may not follow historic patterns of seasonality due to the impact of the COVID-19 pandemic.

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

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q4 Fiscal 2021**	Q3 Fiscal 2021	Q2 Fiscal 2021	Q1 Fiscal 2021	Q4 Fiscal 2020	Q3 Fiscal 2020	Q2 Fiscal 2020	Q1 Fiscal 2020
Revenue	**199.0**	365.4	205.3	135.1	178.1	383.7	203.4	192.6
Net earnings (loss)	**(39.5)**	30.7	(17.5)	(31.6)	(171.3)	25.8	(20.5)	(19.1)
Basic earnings (loss) per common share	**$(1.42)**	$1.11	$(0.63)	$(1.15)	$(6.22)	$0.94	$(0.74)	$(0.69)
Diluted earnings (loss) per common share	**$(1.42)**	$1.09	$(0.63)	$(1.15)	$(6.22)	$0.94	$(0.74)	$(0.69)

For the 14-week period ended April 3, 2021, total consolidated revenue increased by $20.9 million or 11.7% to $199.0 million compared to $178.1 million for the 13-week period ended March 28, 2020. This increase was primarily a result of the additional week in the period, compared to fiscal 2020, which resulted in an additional $15.3 million of revenue. Revenue was also lifted by the sustained growth to the online channel in fiscal 2021, which had yet to meaningfully accelerate at the commencement of the first wave of store closures in the period ended March 28, 2020.

The Company recognized a net loss of $39.5 million for the 14-week period ended April 3, 2021, ($1.42 basic net loss per common share), compared to a net loss of $171.3 million ($6.22 basic net loss per common share) in the prior year. This improvement was a result of cycling over the impairment losses and de-recognition of deferred tax assets in the prior year, which both had a material negative impact in fiscal 2020. This impact was partially offset in the fourth quarter by incentive compensation, which was not recognized in the prior year.

Overview of Consolidated Balance Sheets

Assets

As at April 3, 2021, total assets decreased $83.5 million to $799.5 million, compared to $883.0 million as at March 28, 2020. The decrease was primarily driven by decreases in capital assets, cash and cash equivalents, and inventories, partially offset by an increase in accounts receivables and prepaid expenses. Capital assets decreased by $38.0 million, which relates to the impact of depreciation in the year and a more disciplined capital asset investment program in response to COVID-19 and the Company's measures taken to preserve its cash. Cash and cash equivalents decreased by $35.5 million as a result of the operating loss sustained in the year, and furthered by the impact of the 53rd week on the timing of material payments. Inventories decreased by $26.7 million, a result of deliberate efforts by the Company to maximize its liquidity during the initial stages of the COVID-19 pandemic and the decision to strategically reduce unproductive inventory. These decreases were partially offset by an increase in accounts receivables of $15.3 million, primarily driven by amounts for the CEWS not yet collected by the end of the year and an increase in prepaid expenses of $6.2 million, due to the timing of rent payments.

Liabilities

As at April 3, 2021, total liabilities decreased $22.1 million to $776.9 million, compared to $799.0 million as at March 28, 2020. This was driven primarily by a decrease in lease liabilities, and accounts payables and accrued liabilities. The decrease in lease liabilities of $18.3 million primarily reflects the impact of repayments of interest and principal on lease liabilities outpacing lease renewals in the period, complemented by negotiated rent concessions which met the IFRS 16 COVID-19 practical expedient for recognition. Net accounts payable and accrued liabilities decreased $18.2 million, which is consistent with the year-over-year decline in inventories. These decreases were partially offset by an increase of $6.4 million in unredeemed gift card liabilities, primarily driven by lower redemption activity in fiscal 2021 due to COVID-19 disruptions in the retail network, and an increase of $5.8 million of deferred revenue driven by *plum*® PLUS membership sign-ups since the national launch in fiscal 2020.

Equity

Total equity at April 3, 2021 decreased $61.4 million to $22.6 million, compared to $84.0 million as at March 28, 2020, driven primarily by the net loss of $57.9 million recognized over the year. This was furthered by the recognized other comprehensive loss of $4.5 million, primarily due to the change in fair value of outstanding cash flow hedges.

The weighted average number of common shares outstanding for fiscal 2021 was 27,664,268 compared to 27,515,109 in the prior year. As at June 1, 2021, the number of outstanding common shares was 27,273,961 with a book value of $227.0 million.

Working Capital and Leverage

The Company reported working capital of $46.1 million as at April 3, 2021, compared to $85.2 million as at March 28, 2020. The decrease in working capital compared to the same period last year was driven by the discussed decreases in cash and cash equivalents and inventories, partially offset by the decrease in accounts payable and accrued liabilities and increase in accounts receivable.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $35.5 million for the 53-week period ended April 3, 2021 compared to an increase of $79.2 million in the prior year. The decrease in cash flows in the period was driven by cash flows used in financing activities and investing activities of $62.2 million and $12.4 million, respectively. This was partially offset by cash flows generated from operating activities of $37.7 million.

Cash Flows From Operating Activities

The Company generated cash flows of $37.7 million from operating activities in the 53-week period ended April 3, 2021 compared to generating cash flows of $65.2 million in the prior year, a change of $27.5 million. This was primarily a result of the decrease of $21.0 million in adjusted EBITDA compared to the prior year. The decrease was furthered by a reduction in cash generated from working capital of $4.4 million from the noted increase in accounts receivables, which primarily relates to government subsidies, and the reduction in inventory.

Cash Flows From (Used for) Investing Activities

The Company used cash flows of $12.4 million for investing activities in the 53-week period ended April 3, 2021 compared to generating $79.3 million of cash flows in the prior year, a change of $91.7 million. This was primarily driven by the maturity of $87.2 million of short-term investments in the prior year. The Company employed a protectionist treasury strategy in response to the global COVID-19 pandemic, which resulted in the temporary discontinuation of its use of short-term investments.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Construction, renovations, and equipment, net	1.8	1.0
Intangible assets (primarily application software and internal development costs)	9.2	8.4
Technology equipment	2.3	1.2
Total	13.3	10.6

Cash Flows Used for Financing Activities

The Company used cash flows of $62.2 million for financing activities in the 53-week period ended April 3, 2021 compared to using cash flows of $66.0 million in the prior year, a change of $3.8 million. This was driven by lower repayments on the Company's IFRS 16 lease obligations, a direct impact of rent concessions.

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, cash and cash equivalents, and short-term investments. Cash flows from operating activities could continue to be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, by the impact of social distancing policies and general public health sentiment on retail store traffic, and the Company's ability to safely fulfill orders through its online distribution network.

The contractual maturities of the Company's current and long-term liabilities as at April 3, 2021 are as follows:

(millions of Canadian dollars)	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Total obligations	215.2	121.5	96.7	267.4	700.7

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

During the year, the Company entered into a $25 million related party revolving line of credit to enhance its liquidity. As at April 3, 2021, this facility had expired without any amounts withdrawn by the Company. Subsequent to April 3, 2021, the Company entered into a new $25 million related party revolving line of credit with similar commercial terms. The Company can seek to raise additional funding should a significant risk to liquidity arise, as it currently has no outstanding debt financing, and can reduce capital spending if necessary. However, the COVID-19 pandemic may create a number of additional risks to obtaining such funding, such as the ability to access capital at a reasonable cost. Also, a long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

For additional discussion surrounding risks and uncertainties related to COVID-19, refer to the "Risks and Uncertainties" section in this MD&A.

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these 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. The Company also evaluates its judgments and estimates on an ongoing basis. Methods for determining all material judgments and estimates are consistent with those used in prior periods, except as noted. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates. The critical accounting judgments and estimates and significant accounting policies of the Company are described in notes 3 and 4 of the consolidated financial statements.

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

Use of judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

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

Use of estimates

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

Impairment

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

Inventories

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

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

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

Leases

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

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

Revenue

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

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

Share-based payments

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

Accounting Standards Implemented in Fiscal 2021

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

On May 28, 2020, the IASB issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The Company is applying the practical expedient in the current year and will account for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal is executed.

New Accounting Pronouncements

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

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

Risks and Uncertainties

COVID-19 Risk

The COVID-19 pandemic introduced a number of risks and uncertainties for the Company's business, which could significantly impact the Company's results of operations going forward and the forward-looking statements made herein.

The duration and severity of the COVID-19 pandemic remains uncertain as does its adverse, long-term impact on the Company. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly, estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

Investors should also refer to the Company's description of certain impacts and a number of evolving operational risk management strategies undertaken to manage the ongoing pandemic described above under "Statement on COVID-19".

Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions in the economy. Economic conditions, both on a global scale and in particular markets, may have significant effects on consumer confidence and spending. A decline in consumer spending, especially during the November/December holiday season, could have an adverse effect on the Company's financial condition. Pandemics, such as the current COVID-19 pandemic, and the related governmental, private sector and individual consumer responses could reduce retail traffic and consumer spending, result in temporary or permanent closures of stores, offices, and factories, and could disrupt the material flow of goods, which could have an adverse effect on the

Company's financial situation. Other variables, such as unanticipated increases in merchandise costs, higher labour costs, increases in shipping rates or interruptions in shipping service, foreign exchange fluctuations, political uncertainty, disruptions in international trade, the impact of natural disasters, geo-political events or acts of terrorism, or higher interest rates or unemployment rates, could also unfavourably impact the Company's financial performance.

Competition

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

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

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

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

Consumer Trends

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

Strategic Initiatives and Growth Strategy

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

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

Corporate Reputation

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

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

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

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

Key Business Relationships

Indigo relies heavily on suppliers in order to sell books and general merchandise on acceptable terms and within agreed upon timelines. These suppliers are impacted by, among other things, increases in labour and input costs, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, trade restrictions, tariffs, currency exchange rates, transport costs, and other factors including the closure of national borders and disruption of merchandise deliveries due to the effects of the COVID-19 pandemic. Collectively and individually, these factors are beyond the Company's control and a failure to maintain favorable terms and relationships with these suppliers, or the absence of key suppliers, may affect the Company's ability to compete in the marketplace. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions to imports, changes in trade restrictions and tariffs, or currency fluctuations could negatively impact the Company's revenues and margins. To date, the Company has not experienced any significant difficulty in obtaining merchandise and considers its sources of supply to be adequate, however, the Company's flow of merchandise could be affected by the COVID-19 pandemic.

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

As e-commerce continues to become a larger component of the Company's omni-channel business, Indigo relies on third-party logistics partners to fulfill sales transactions with its customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at the Company's logistics partners, including as a result of COVID-19, may adversely affect Indigo's business and financial results.

Workplace Health and Safety

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

During the COVID-19 pandemic, the health and safety of the Company's customers, employees, and communities have remained a top priority in the face of evolving workplace risks and practices. The Company has put in place and employed extensive health and safety measures across all of its operations based on the guidance and direction from public health authorities. If government authorities introduce more stringent health and safety laws, the Company may incur additional costs to comply with these requirements, which may have an adverse impact on the Company's financial results. Further, if the Company is unable to meet the current or future health and safety laws, regulations and industry standards related to COVID-19, or despite the Company's efforts and precautions, employees are exposed and infected by the COVID-19 virus, it could have an adverse effect on the Company's ability to re-open and operate its stores, maintain operations at its distribution centres, or reopen and operate its head office, all of which could have an adverse effect on the Company's operations, corporate reputation and financial performance.

Remote Work

In addition to temporary rolling closures of its retail locations, in response to the COVID-19 pandemic the Company also had to close its head office and implement a remote work program to maintain its operations. While head office employees are generally able to perform their functions in a remote setting from their homes or other locations, certain additional risk factors may negatively impact the Company's ability to perform its operations efficiently, securely and without interruptions. These risk factors, any of which could have an adverse effect on the Company's operations and financial performance, include: increased cybersecurity threats while duties are performed outside the Company's regular offices; increased dependence on telecommunication links such as Internet access in employees' homes; decreased efficiency due to the change in equipment and network speeds used for data processing and use; the timely dissemination and exchange of information in a remote workforce environment; the dependence on certain functions that are difficult to efficiently conduct outside a regular workplace; and the degradation of the Company's culture and negative impacts to employee engagement and well-being.

Talent

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

Labour Relations

The majority of the Company's employees are not subject to a collective bargaining agreement. Unions may attempt to organize and represent the Company's employees. Responding to union organizing activities may divert attention and efforts of management and employees and may have a negative financial impact on individual stores, distributions centres, or on the business as a whole. The maintenance of a productive, engaged and efficient labour environment cannot be assured and if a significant number of employees were to become unionized, it could adversely affect the business, financial condition or results of operations of the Company. In addition, a labour dispute or work stoppage involving some or all of the Company's employees may harm Indigo's reputation, disrupt its operations, and reduce its revenues, and resolution of disputes may increase its costs.

In fiscal 2021, the non-management employees at four Indigo retail stores voted to unionize. A collective bargaining agreement is in place for one of the locations and the Company is currently negotiating collective bargaining agreements for the other three locations, the outcome of which is not yet known, nor is the timing of completing such agreements. Failure to successfully negotiate collective agreements can lead to labour disruptions and could adversely affect Indigo's reputation, financial performance and retail operations.

Inventory Management

The Company must manage its inventory levels to successfully operate the business. Inventory purchases are based on several variables, such as market trends and sales forecasts. An inability to respond to changing customer preferences or sales forecasts which do not match customer demand may result in an inventory shortage or excess inventory that must be sold at lower prices. While the majority of the Company's book purchases are eligible for return to suppliers at full credit, the evolution of the Company's product assortment, namely general merchandise items, means the Company has an increasing amount of non-returnable inventory. The Company engages with certain vendors on drop ship fulfilment terms, mitigating the inventory management risk and offering the Company greater flexibility to respond to changes in consumer demand. The Company monitors the impact of customer trends on inventory turnover and obsolescence, but inappropriate inventory levels could negatively impact the Company's revenue and financial performance.

Product Quality and Product Safety

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

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

Supply Chain

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

Liquidity Risk

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

However, cash flows from operating activities could be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to: adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences; the impact of social distancing policies and general public health sentiment on retail store traffic; and the Company's ability to safely fulfill orders through its online distribution network. Operating cash flows could also be negatively impacted by increased expenses, and although the Company has a greater ability to alter its cost structure in response to such events, the effectiveness and timing cannot be guaranteed.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2022. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by the risks discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity, as it currently has no outstanding debt financing, and reduce capital spending if necessary. However, the COVID-19 pandemic creates additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company. A long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

Credit Risk

Indigo is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivables, cash and cash equivalents, short-term investments, and derivative financial instruments. The Company is also exposed to operational risk from adverse impacts on fluctuations in its own credit risk, which may hinder its ability to negotiate commercially favourable purchase terms.

Accounts receivables primarily consist of receivables from financial institutions for the Company's sales by credit card tender, recoveries of credits from suppliers for returned or damaged products, tenant allowances receivable from landlords for renovations and lease inducements and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored. In fiscal 2021, accounts receivable included material balances outstanding from the Government of Canada associated with emergency COVID-19 support, which has been assessed to have minimal credit risk.

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

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

Interest Rate Risk
The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents and short-term investments. The Company does not currently have any debt and all interest expense recognized in fiscal 2021 relates to its retail lease liabilities. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk.

Real Estate
The Company leases all of its retail locations and while it attempts to renew these leases as they come due on favourable terms and conditions, it is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred due to unanticipated store closings or relocations, could also unfavourably impact the Company's performance.

As a result of the COVID-19 pandemic, the Company has experienced significant government mandated retail store closures and capacity constraints, materially affecting operations. The Company is currently negotiating with its landlords to abate certain rent expense in response to the financial impact of rolling COVID-19 store closures; however, there can be no assurance that such negotiations will be successful and there are additional risks associated with these suspensions.

The inability of the Company to enter into suitable rent relief arrangements could potentially have a cumulative material effect, depending on the number of locations impacted and the materiality of such locations to the overall business, among other factors. Any dispute under these leases may result in litigation with the relevant landlord.

The Company subleases space in its retail store network to café vendors, exposing the Company to certain risks inherent in the commercial real estate business. This business has been greatly impacted by COVID-19 temporary store closures and capacity restrictions, and adverse impacts to the Company may include an increase in re-leasing timelines, potential delays in lease-up of vacant space and the market terms at which such subleases can be executed.

Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

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

Information Technology and Digital Platforms
The Company increasingly depends on the proper operation of its information technology platforms and those of third parties to successfully conduct daily business functions, maintain its competitive position in the marketplace and enable its growth strategy. The increased adoption of e-commerce has further exposed the Company to various additional uncertainties including website downtime and other technical failures that could adversely affect the Company's ability to grow its digital channels.

As described above in "Description of the Business – Information Systems", the Company continues to invest in new technologies to expand its competitiveness and customer experience. Any failure in the implementation of these solutions, the operation of current information technology systems, platforms or third-party cloud-based processing could result in a significant disruption to the business, potentially negatively impacting revenue or damaging the Company's reputation. Furthermore, the Company continues to rely on legacy technologies and systems and any failure to maintain and support these legacy systems or migrate to new technology systems could impact Indigo's operational effectiveness.

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

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

Cyber threats continuously increase in sophistication and may become more difficult to anticipate and detect on a timely basis. A lapse in cybersecurity, or successful cyber attack, may defeat the Company's security measures or those of its cloud-based service providers or third-party vendors. This risk has been heightened since the onset of the pandemic as threat actors have notably taken concerted efforts in the retail industry and the broader market to take advantage of disruptions associated with the COVID-19 pandemic and other previously unreported flaws in third-party software as widely reported in the media.

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

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

Disaster Recovery and Business Continuity

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

Intellectual Property

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

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

Legal Proceedings

In the normal course of business, Indigo becomes involved from time to time in litigation and disputes. The outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, which creates the risk that an unfavourable outcome in any of these matters could negatively affect the Company's reputation, operations and financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to the Company and significantly divert the attention of the Company's management. While the final outcome of such claims and litigation pending as at April 3, 2021 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Regulatory Environment

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

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

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

Throughout the COVID-19 pandemic, federal, provincial, state and municipal government authorities have introduced new legislation and regulations, as well as applied existing laws and ordinances in novel ways, in order to mitigate the impacts of the virus. The Company has actively monitored and analysed these government actions, assessed their impact on the Company's operations, and, where necessary or prudent, implemented changes to the Company's business practices and operations. The imposition of additional regulations or the enactment of any new or more stringent legislation in response to the COVID-19 pandemic could have a material adverse impact on the Company's business and results of operations.

The sourcing and importation of books into Canada is governed by the Book Importation Regulations under the Copyright Act (Canada). Any changes to the existing regulatory framework may impact the Company's ability to secure and maintain favorable terms and access to essential products, which could negatively impact the Company's revenues and margins and its ability to compete in the marketplace. As well, the distribution and sale of books is a regulated cultural industry in which foreign investments to acquire control of an existing cultural business are subject to review under the Investment Canada Act. There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada or by acting as a constraint on the acquisition by foreign investors of Canadian retailers involved in a cultural business. An increased number of competitors could have an adverse effect on the Company's financial performance. Please see the "Competition" Risk Factor above.

Compliance with Privacy Laws

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

Disclosure Controls and Procedures

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at April 3, 2021.

Internal Controls over Financial Reporting

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

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such internal controls over financial reporting using the framework established in the Internal Control – Integrated Framework ("COSO Framework") published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at April 3, 2021.

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the quarter and year ended on April 3, 2021 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. The extent to which the impacts of the COVID-19 pandemic affect the factors described herein depend on future developments, which are highly uncertain and cannot be predicted. However, whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

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

The Company believes Adjusted EBITDA is a useful measure of operating performance as it provides a relevant picture of operating results. Certain effects of financing and investing activities are excluded by removing the effects of interest (excluding those related to lease liabilities), depreciation and amortization expenses (excluding those related to the Company's right-of-use assets), impairment, asset disposals, share of losses from equity investments and income taxes. As retail occupancy leases represent a material component of the Company's cost structure and are managed with its operating costs, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. As a result, IFRS 16 right-of-use asset depreciation and associated lease finance costs are reflected in the key metric. This represents a change in calculation methodology from the prior fiscal year, and fiscal 2020 numbers have been consistently stated.

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

The Company typically believes that investors would find comparable store sales and total comparable sales useful in assessing the performance of the business. However, due to the temporary store closures and store traffic restrictions associated with COVID-19, the Company believes comparable store sales and total comparable sales are not currently representative of the underlying trends of the business, and as a result, these metrics have not been reflected in this MD&A.

Independent Auditor's Report

To the Shareholders of Indigo Books & Music Inc.

Opinion

We have audited the consolidated financial statements of Indigo Books & Music Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at April 3, 2021 and March 28, 2020, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at April 3, 2021 and March 28, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matter

Valuation of property, plant and equipment, right-of-use-assets and intangible assets (collectively, "long-lived assets")

As at April 3, 2021, the Company has $77M of property, plant, and equipment, $21M of intangible assets and $362M of right-of-use assets, as disclosed in notes 10, 12 and 11, respectively, of the consolidated financial statements. As disclosed in note 6, these long-lived assets are assessed for impairment at the store level cash-generating unit ("CGU"), except for corporate assets which cannot be allocated on a reasonable and consistent basis to individual CGUs which are assessed for impairment at the corporate level. Any time an indicator of impairment exists, management assesses whether there has been an impairment loss in the carrying value of these long-lived assets. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or group of CGUs using a discounted cash flow model. The Company discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in note 6 to the consolidated financial statements.

Auditing management's long-lived asset impairment tests was complex, given the degree of judgement and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the CGUs or group of CGUs. Significant assumptions included expected sales growth rates, earnings margins and discount rate, which are affected by expectations about future consumer behavior and the impacts of the COVID-19 global pandemic.

How Our Audit Addressed the Key Audit Matter

To test the recoverable amount for the Company's CGUs or group of CGUs, our audit procedures included, among others, assessing the significant assumptions discussed above and underlying data used by the Company in its analysis. With the assistance of our valuations specialists, we evaluated the Company's model, valuation methodology and certain assumptions, including the discount rate. We assessed the selection of the discount rate by evaluating the inputs against relevant internal and external sources. We assessed the application of the discount rate by evaluating the mathematical accuracy of the calculation.

We assessed the historical accuracy of management's estimates on expected sales growth rates and earnings margins by comparing management's past projections to actual and historical performance. We also compared the sales growth rates and the earnings margins to current trends and market data discussing the outlook of the Canadian retail industry. We performed sensitivity analysis on significant assumptions, including the sales growth rates, earnings margins and discount rate, to evaluate the impact of the changes in the recoverable amount of the CGUs or group of CGUs that would result from changes in the assumptions.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 1, 2021

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at April 3, 2021	As at March 28, 2020
ASSETS		
Current		
Cash and cash equivalents (note 7)	**84,935**	120,473
Accounts receivable	**22,976**	7,640
Inventories (note 8)	**215,114**	241,812
Prepaid expenses	**12,278**	6,062
Income taxes receivable	**–**	138
Derivative assets (note 9)	**–**	3,794
Other assets (note 13)	**2,120**	2,320
Total current assets	**337,423**	382,239
Loan receivable (note 13)	**–**	446
Property, plant, and equipment, net (notes 6 and 10)	**77,131**	91,215
Right-of-use assets, net (notes 6 and 11)	**361,864**	382,146
Intangible assets, net (notes 6 and 12)	**20,916**	24,571
Equity investment, net (notes 6 and 13)	**2,156**	2,353
Total assets	**799,490**	882,970
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 23)	**145,193**	164,294
Unredeemed gift card liability	**58,053**	51,673
Provisions (notes 15 and 23)	**2,365**	2,034
Deferred revenue	**16,486**	10,682
Short-term lease liabilities (notes 11 and 23)	**67,603**	68,402
Derivative liabilities (note 9)	**1,622**	–
Total current liabilities	**291,322**	297,085
Long-term accrued liabilities (note 23)	**2,090**	1,196
Long-term provisions (notes 15 and 23)	**827**	469
Long-term lease liabilities (notes 11 and 23)	**482,671**	500,215
Total liabilities	**776,910**	798,965
Equity		
Share capital (note 17)	**226,986**	226,986
Contributed surplus (note 18)	**13,782**	12,822
Retained deficit	**(216,668)**	(158,801)
Accumulated other comprehensive income (loss) (note 9)	**(1,520)**	2,998
Total equity	**22,580**	84,005
Total liabilities and equity	**799,490**	882,970

See accompanying notes

On behalf of the Board:

Heather Reisman
Director

Anne Marie O'Donovan
Director

Consolidated Statements of Loss and Comprehensive Loss

(thousands of Canadian dollars, except per share data)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Revenue (note 19)	**904,738**	957,722
Cost of sales	**(567,902)**	(553,627)
Gross profit	**336,836**	404,095
Operating, selling, and other expenses (notes 10, 11, 12, 13 and 19)	**(368,705)**	(422,624)
Impairment losses (note 6)	**–**	(56,582)
Operating loss	**(31,869)**	(75,111)
Net interest expense (note 11)	**(24,784)**	(23,524)
Share of loss from equity investments (note 13)	**(197)**	(1,651)
Loss before income taxes	**(56,850)**	(100,286)
Income tax expense (note 14)	**(1,017)**	(84,712)
Net loss	**(57,867)**	(184,998)
Other comprehensive income (loss) (note 9)		
Items that are or may be reclassified subsequently to net loss, net of taxes:		
Change in fair value of cash flow hedges	**(4,507)**	2,492
Reclassification of realized loss (gain)	**108**	(497)
Foreign currency translation adjustment	**(119)**	445
Other comprehensive income (loss)	**(4,518)**	2,440
Total comprehensive loss	**(62,385)**	(182,558)
Net loss per common share (note 20)		
Basic	**$(2.09)**	$(6.72)
Diluted	**$(2.09)**	$(6.72)

See accompanying notes

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 30, 2019	225,531	12,716	131,311	558	370,116
Adjustment on adoption of IFRS 16 *Leases*	–	–	(105,114)	–	(105,114)
Balance, March 31, 2019	225,531	12,716	26,197	558	265,002
Net loss for the period	–	–	(184,998)	–	(184,998)
Directors' deferred stock units converted (note 17)	1,455	(1,455)	–	–	–
Share-based compensation (note 18)	–	1,268	–	–	1,268
Directors' compensation (note 18)	–	293	–	–	293
Other comprehensive income (note 9)	–	–	–	1,995	1,995
Foreign currency translation adjustment	–	–	–	445	445
Balance, March 28, 2020	226,986	12,822	(158,801)	2,998	84,005
Balance, March 28, 2020	**226,986**	**12,822**	**(158,801)**	**2,998**	**84,005**
Net loss for the period	**–**	**–**	**(57,867)**	**–**	**(57,867)**
Share-based compensation (note 18)	**–**	**666**	**–**	**–**	**666**
Directors' compensation (note 18)	**–**	**294**	**–**	**–**	**294**
Other comprehensive loss (note 9)	**–**	**–**	**–**	**(4,399)**	**(4,399)**
Foreign currency translation adjustment	**–**	**–**	**–**	**(119)**	**(119)**
Balance, April 3, 2021	**226,986**	**13,782**	**(216,668)**	**(1,520)**	**22,580**

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
OPERATING ACTIVITIES		
Net loss	**(57,867)**	(184,998)
Adjustments to reconcile net loss to cash flows from operating activities		
Depreciation of property, plant, and equipment (note 10)	**17,158**	23,005
Depreciation of right-of-use assets (note 11)	**42,990**	40,101
Amortization of intangible assets (note 12)	**12,885**	13,374
Gain on disposal of equity investment (note 13)	**–**	(1,484)
Loss on disposal of capital assets (notes 10 and 12)	**399**	1,932
Impairment losses (note 6)	**–**	56,582
Share-based compensation (note 18)	**666**	1,268
Directors’ compensation (note 18)	**294**	293
Deferred income tax expense (note 14)	**1,017**	84,712
Rent concessions (note 11)	**(4,141)**	–
Other	**(784)**	377
Net change in non-cash working capital balances related to operations (note 21)	**150**	4,512
Interest expense (note 11)	**25,706**	25,585
Interest income	**(922)**	(1,714)
Share of loss from equity investments (note 13)	**197**	1,651
Cash flows from operating activities	**37,748**	65,196
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment (note 10)	**(4,093)**	(2,223)
Addition of intangible assets (note 12)	**(9,245)**	(8,397)
Change in short-term investments (note 7)	**–**	87,150
Principal payment on loan receivable (note 13)	**–**	719
Interest received	**922**	2,034
Cash flows from (used for) investing activities	**(12,416)**	79,283
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 11)	**(36,535)**	(40,391)
Interest paid (note 11)	**(25,706)**	(25,585)
Cash flows used for financing activities	**(62,241)**	(65,976)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**1,371**	680
Net increase (decrease) in cash and cash equivalents during the period	**(35,538)**	79,183
Cash and cash equivalents, beginning of period	**120,473**	41,290
Cash and cash equivalents, end of period	**84,935**	120,473

See accompanying notes

Notes to Consolidated Financial Statements

April 3, 2021

1. CORPORATE INFORMATION

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

2. NATURE OF OPERATIONS

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness and lifestyle products that support customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores (2020 – 88) under the *Indigo* and *Chapters* names, as well as 89 small format stores (2020 – 108) under the banners *Coles*, *Indigospirit*, and *The Book Company*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate capital resources. At Indigo, this is done on an enterprise level. This holistic managerial approach is reflected in the Company's reimagined new store concept. The new store design emphasizes a central focus on enriching the lives of book lovers with core print and general merchandise products. Therefore, the Company reports as a single segment.

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

3. BASIS OF PREPARATION

Statement of Compliance

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

These consolidated financial statements were approved by the Board of Directors on June 1, 2021.

Fiscal Year

The fiscal year of the Company ends on the Saturday closest to March 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The year ended April 3, 2021 contained 53 weeks, while the year ended March 28, 2020 contained 52 weeks.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, significantly impacting the Company's operations during fiscal 2021, most notably by numerous temporary mandated store closures.

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

The Company has suspended normal rent payments on certain leases as of February 1, 2021, making partial payments. The Company is in negotiations with its landlords regarding rent abatement to address the financial impacts of the current wave of COVID-19 related store closures, which have extended into fiscal 2022.

Use of Judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

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

Use of Estimates

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

Impairment

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

Inventories

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

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

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

Leases

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

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

Revenue

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

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

Share-based payments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Measurement

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

Basis of Consolidation

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

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

Foreign Currency

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

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

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

Equity Investments

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

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than or equal to 365 days from the date of acquisition. These investments are non-redeemable until the maturity date.

Inventories

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

Prepaid Expenses

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

Income Taxes

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

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

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

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

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

Property, Plant, and Equipment

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

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

The following useful lives are applied:

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

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

Intangible Assets

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

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

The following useful lives are applied:

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

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

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

Computer application software

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

Internal development costs

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

Retail lease

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

Leases

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

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

The Company performs quarterly assessments of contracts that do not take the legal form of a lease to determine whether they convey the right to use an asset in return for a payment or series of payments and therefore need to be accounted for as leases. As at April 3, 2021, the Company had no such contracts.

Impairment Testing

Capital assets

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

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

Financial assets

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

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

Provisions

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

Total Equity

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

Share-Based Awards

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

Revenue Recognition

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

Retail sales

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

Online and kiosk sales

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

Gift cards

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

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

Indigo *plum*® rewards program

Indigo's loyalty program, *plum*®, has two tiers: *plum*®, a free points-based tier; and *plum*® PLUS, an annual fee-based tier. The *plum*® program is an omni-channel program that allows members to earn and redeem points online and in-store, seamlessly. This program engages members through mass promotions and targeted one-to-one promotional offers, as well as invitations to exclusive events and member-only shopping experiences. The Company launched the *plum*® PLUS membership program in fiscal 2020, replacing its former annual fee-based irewards® program. *plum*® PLUS offers its members an immediate discount on eligible products, free shipping and the ability to earn points on almost every dollar spent at the Company's Canadian stores, as well as on its digital platforms.

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

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

Interest income

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

Vendor Rebates

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

Loss per Share

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

Financial Instruments

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

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

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

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

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

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

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

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

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

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2: Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

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

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

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

(ii) The fair value of derivative financial instruments are estimated using quoted market rates at the measurement date adjusted for the maturity term of each instrument. The Company's portfolio of derivative financial instruments as at April 3, 2021 is classified as Level 2 in the fair value hierarchy.

Derivative financial instruments and hedge accounting

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

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

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

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

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

Retirement Benefits

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

Accounting Standards Implemented in Fiscal 2021

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

On May 28, 2020, the IASB issued an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession that is being offered as a direct response to the economic impacts of COVID-19 is a lease modification, which would have capitalized the benefit received. The Company is applying the practical expedient in the current period and will account for any eligible change in lease payments resulting from a COVID-19-related rent concession in profit or loss in the period the deal is executed.

5. NEW ACCOUNTING PRONOUNCEMENTS

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

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

6. IMPAIRMENT OF ASSETS

Assets are assessed for impairment at the CGU level, except for those assets that are considered to be corporate assets. As certain corporate assets cannot be allocated on a reasonable and consistent basis to individual CGUs, they are tested for impairment at the corporate level. A CGU has been defined as either an individual retail store or grouping of stores where a flagship in a prime and much sought-after location serves the same customer base as stores in a surrounding vicinity, as this was determined to be the lowest level for which cash inflows are largely independent. CGUs are tested for impairment if impairment indicators exist at the reporting date.

Recoverable amounts for CGUs being tested are based on the higher of the value-in-use and the fair value less cost of disposal, which is calculated from discounted cash flow projections and the amount obtainable from the sale of a CGU in an arm's-length transaction between knowledgeable, willing parties, less the costs of disposal.

Retail Store Impairment

Impairment indicators were identified for certain retail store CGUs as at April 3, 2021 and as at March 28, 2020. Accordingly, the Company performed impairment testing and determined there was no impairment for the year ended April 3, 2021 (2020 – impairment losses of $15.3 million, across a number of CGUs; $9.4 million recognized against the right-of-use assets, $5.0 million against property, plant and equipment and $0.9 million against intangible assets.)

Recoverable amounts were determined as the higher of their value in use or fair value less cost of disposal. Uncertainties around the impact of COVID-19 on projected sales and the Company's discount rate are key assumptions in determining the value-in-use recoverable amount. Management's estimate of the discount rate reflects its weighted average cost of capital, which intrinsically considers the current market assessment of the time value of money and the risks specific to the CGU. The recoverable amount is based on an average discount rate of 12.5% for retail store CGUs (2020 – 13.5%), which is reflective of concentration and geographic risk premiums.

Where the recoverable amount of a CGU was measured at its fair value less cost of disposal, the fair value was categorized as level 3 in the fair value hierarchy. Management's fair value estimate was based on prevailing commercial rent rates, management's judgment on the comparability of these market inputs, and management's estimate of the risks associated with brick-and-mortar retail properties in the current COVID-19 pandemic.

Corporate Asset Impairment

As at April 3, 2021, and March 28, 2020, the Company had identified impairment indicators relating to its corporate assets. Corporate asset testing calculates discounted cash flow projections over a five-year period plus a terminal value. For the year ended April 3, 2021, it was determined there was no impairment (2020 – impairment losses of $41.2 million; $31.5 million recognized against the right-of-use assets, $7.5 million against property, plant, and equipment, $2.0 million against intangible assets, and $0.2 million against the equity investment).

The recoverable amount was determined using the value-in-use methodology. Key assumptions were the cash flow projections, terminal growth rate, and the discount rate. Cash flow projections were based on financial forecasts approved by management, and covered a five-year period. The cash flows represent management's best projections based on current and anticipated market conditions, however, these projections are inherently uncertain due to the impact of the COVID-19 pandemic. The cash flows beyond the five-year period for corporate asset testing have been extrapolated using a steady 1.0% terminal growth rate, which management has assessed to be the projected long-term average growth rate. Consistent with retail store impairment, management's estimate of the discount rate reflects its weighted average cost of capital. Management's estimate of the discount rate is assessed as at April 3, 2021 and reflects the current market assessment of the time value of money, enterprise market risk and the risks specific to the Company. The recoverable amount is based on a discount rate of 11.7% (2020 – 12.5%). Although the Company believes the assumptions and estimates made are reasonable and appropriate, different assumptions and estimates could materially impact its reported financial results.

7. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	As at April 3, 2021	As at March 28, 2020
Cash	84,516	48,955
Restricted cash	391	1,212
Cash equivalents	28	70,306
Cash and cash equivalents	**84,935**	120,473

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

As at April 3, 2021, the Company held no short-term investments (March 28, 2020 – no short-term investments). Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than or equal to 365 days from the date of acquisition. These investments are non-redeemable until the maturity date, and therefore they are classified separately from cash and cash equivalents.

8. INVENTORIES

The cost of inventories recognized as an expense during the 53-week period ended April 3, 2021 was $530.1 million (2020 – $550.0 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 53-week period ended April 3, 2021 was $9.2 million (2020 – $10.2 million). The amount of inventory with net realizable value equal to cost was $5.4 million as at April 3, 2021 (March 28, 2020 – $4.4 million).

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the fiscal year ended April 3, 2021, the Company entered into contracts with total notional amounts of C$69.7 million to purchase U.S. dollar/Canadian dollar currency pair forwards (2020 – C$118.8 million). As at April 3, 2021, the Company had remaining contracts in place representing total notional amounts of C$34.6 million (March 28, 2020 – C$66.2 million) at an average forward rate of 1.32 (2020 – 1.32). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at April 3, 2021 resulted in the recognition of no derivative asset (March 28, 2020 – $3.8 million) and a derivative liability of $1.6 million (March 28, 2020 – no derivative liability).

During the quarter ended September 26, 2020, the Company terminated derivative instruments based on the heightened credit risk of one of its counterparties during the COVID-19 pandemic; consequently, hedge accounting was discontinued and a gain of $0.3 million as at that date was deferred in other comprehensive income. This gain has since been recognized in earnings and loss in the 53-week period ended April 3, 2021, concurrently with the related hedged transactions. There were no other forecast transactions for which hedge accounting had been used, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 53-week period ended April 3, 2021 and 52-week period ended March 28, 2020.

During the fiscal year ended April 3, 2021, the Company had net losses of $4.5 million (net of taxes of $1.0 million) from the change in fair value of outstanding cash flow hedges (2020 – net gains of $2.5 million, net of taxes of $0.9 million). During the same period, the Company reclassified net losses from settled contracts out of other comprehensive income to inventory and expenses of $0.1 million (net of taxes of below $0.1 million) (2020 – net gains of $0.5 million, net of taxes of $0.2 million). This resulted in an other comprehensive loss of $4.4 million for the 53-week period ended April 3, 2021 (2020 – other comprehensive income of $2.0 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. For the year ended April 3, 2021, reclassified amounts resulting from hedge ineffectiveness totaled $0.3 million (2020 – immaterial) and realized foreign exchange amounts as a result of derivative financial instruments totaled $0.3 million (2020 – immaterial).

10. PROPERTY, PLANT, AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Total
Gross carrying amount				
Balance, March 31, 2019	102,440	17,171	80,285	199,896
Additions, net	4,169	1,234	(3,180)	2,223
Disposals	(1,446)	(204)	(2,274)	(3,924)
Assets with zero net book value	(7,431)	(2,498)	(10,592)	(20,521)
Foreign currency adjustment	171	–	336	507
Balance, March 28, 2020	97,903	15,703	64,575	178,181
Additions, net	**824**	**2,331**	**938**	**4,093**
Disposals	**(351)**	**(97)**	**(62)**	**(510)**
Assets with zero net book value	**(9,939)**	**(2,291)**	**(11,277)**	**(23,507)**
Foreign currency adjustment	**(259)**	**–**	**(502)**	**(761)**
Balance, April 3, 2021	**88,178**	**15,646**	**53,672**	**157,496**
Accumulated depreciation and impairment				
Balance, March 31, 2019	38,974	7,030	27,986	73,990
Depreciation	10,149	3,118	9,738	23,005
Disposals	(745)	(133)	(1,165)	(2,043)
Impairment losses	4,884	649	7,002	12,535
Assets with zero net book value	(7,431)	(2,498)	(10,592)	(20,521)
Balance, March 28, 2020	45,831	8,166	32,969	86,966
Depreciation	**8,487**	**2,800**	**5,871**	**17,158**
Disposals	**(177)**	**(46)**	**(29)**	**(252)**
Assets with zero net book value	**(9,939)**	**(2,291)**	**(11,277)**	**(23,507)**
Balance, April 3, 2021	**44,202**	**8,629**	**27,534**	**80,365**
Net carrying amount				
March 28, 2020	52,072	7,537	31,606	91,215
April 3, 2021	**43,976**	**7,017**	**26,138**	**77,131**

11. LEASE BALANCES

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

(thousands of Canadian dollars)	
Gross carrying amount	
Balance on transition, March 31, 2019	388,492
Additions	73,148
Foreign currency adjustment	1,494
Balance, March 28, 2020	**463,134**
Additions	**25,765**
Foreign currency adjustment	**(3,057)**
Balance, April 3, 2021	**485,842**
Accumulated depreciation and impairment	
Balance on transition, March 31, 2019	–
Depreciation	40,101
Impairment losses	40,887
Balance, March 28, 2020	**80,988**
Depreciation	**42,990**
Balance, April 3, 2021	**123,978**
Net carrying amount	
March 28, 2020	382,146
April 3, 2021	**361,864**

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020
Balance, beginning of period	**568,617**	533,367
Lease renewals included in the scope of IFRS 16	**25,899**	73,950
Accretion of lease liabilities	**25,706**	25,585
Repayment of interest and principal on lease liabilities	**(62,241)**	(65,976)
Rent concessions	**(4,141)**	–
Foreign currency adjustment	**(3,566)**	1,691
Balance, end of period	**550,274**	568,617

For the 53-week period ended April 3, 2021, the Company has applied the practical expedient offered under the amendment to IFRS 16 for COVID-19 to all rent concessions that met the criteria. The Company recognized $4.1 million in the year in its Consolidated Statements of Loss and Comprehensive Loss to reflect the changes in lease payments that arose from COVID-19-related rent concessions (2020 – not applicable).

During the year ended April 3, 2021, the Company expensed $1.8 million (March 28, 2020 – $2.9 million) of base rent payments relating to short-term leases for which the recognition exemption was applied, and these payments were not included in the lease liabilities.

The Company earned income from subleases of $4.5 million for the 53-week period ended April 3, 2021 (March 28, 2020 – $7.7 million). All of the Company's subleases are classified as operating leases and are net against occupancy expenses.

As at April 3, 2021, the Company had leases in respect of its stores and support office premises. The future undiscounted minimum lease commitments for the Company's leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

(thousands of Canadian dollars)	Total
2022	67,041
2023	62,289
2024	58,708
2025	52,251
2026	42,812
Thereafter	119,152
Total obligations	402,253

12. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Retail lease	Total
Gross carrying amount					
Balance, March 31, 2019	28,508	15,486	3,387	1,207	48,588
Additions	3,831	4,566	–	–	8,397
Disposals	(23)	(4)	–	–	(27)
Assets with zero net book value	–	(3,012)	–	–	(3,012)
Balance, March 28, 2020	**32,316**	**17,036**	**3,387**	**1,207**	**53,946**
Additions	**4,837**	**4,408**	**–**	**–**	**9,245**
Disposals	**(25)**	**–**	**–**	**–**	**(25)**
Assets with zero net book value	**(11,158)**	**(3,907)**	**–**	**–**	**(15,065)**
Balance, April 3, 2021	**25,970**	**17,537**	**3,387**	**1,207**	**48,101**
Accumulated amortization and impairment					
Balance, March 31, 2019	10,244	5,672	–	145	16,061
Amortization	8,199	5,051	–	124	13,374
Disposals	(13)	–	–	–	(13)
Impairment losses	1,056	713	259	938	2,966
Assets with zero net book value	–	(3,012)	–	–	(3,012)
Balance, March 28, 2020	**19,486**	**8,424**	**259**	**1,207**	**29,376**
Amortization	**7,449**	**5,436**	**–**	**–**	**12,885**
Disposals	**(11)**	**–**	**–**	**–**	**(11)**
Assets with zero net book value	**(11,158)**	**(3,907)**	**–**	**–**	**(15,065)**
Balance, April 3, 2021	**15,766**	**9,953**	**259**	**1,207**	**27,185**
Net carrying amount					
March 28, 2020	12,830	8,612	3,128	–	24,570
April 3, 2021	**10,204**	**7,584**	**3,128**	**–**	**20,916**

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

13. EQUITY INVESTMENTS

The Company holds an equity ownership in Unplug, which operates meditation studios in the U.S., resulting in a 20% voting interest and representation on the board of managers. The Company uses the equity method of accounting to record Unplug results. The Company did not receive a distribution from Unplug during the period.

Changes in the carrying amount of Unplug were as follows:

(thousands of Canadian dollars)	Carrying value
Balance, March 30, 2019	2,610
Share of loss from Unplug	(63)
Impairment of investment	(194)
Balance, March 28, 2020	**2,353**
Share of loss from Unplug	**(197)**
Balance, April 3, 2021	**2,156**

During the prior year, 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 financial impact of the transaction consisted of proceeds of $1.8 million, which generated a gain on the sale of $1.5 million recognized in fiscal 2020. The proceeds outstanding at the time of sale were to be paid in installments, with the final payment in calendar 2022.

Prior to the sale, the Company used the equity method of accounting to record Calendar Club results. In fiscal 2020, Indigo had recognized a net loss from Calendar Club of $1.7 million and received no annual distribution.

14. INCOME TAXES

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

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

(thousands of Canadian dollars)	**As at April 3, 2021**	As at March 28, 2020
Reserves and allowances	**3,216**	1,777
Non-capital loss carryforwards	**25,425**	20,413
Capital loss carryforwards	**319**	319
Corporate minimum tax credit	**3,379**	3,379
Book amortization in excess of capital cost allowance	**43,858**	36,359
Lease liabilities	**141,445**	148,551
Cash flow hedges	**434**	–
Total deferred tax assets	**218,076**	210,798
Right-of-use assets	**(92,001)**	(100,310)
Cash flow hedges	**–**	(1,017)
Total deferred tax liabilities	**(92,001)**	(101,327)
Net deferred tax assets	**126,075**	109,471
Value of deferred tax assets not recognized in the current period	**(126,075)**	(109,471)
Recognized net deferred tax assets	**–**	–

As at April 3, 2021, all net deferred tax assets have not been recognized (March 28, 2020 – all net deferred tax assets not recognized). This decision was influenced by the Company's current operating loss and uncertainty surrounding future profitability as a result of the COVID-19 pandemic, among other factors. As such, uncertainty exists surrounding the probability of sufficient taxable income being available to utilize all deferred tax assets within the time line of management's forecasts. The time period of future projected taxable profits used to assess the recognition of deferred tax assets was shorter than the expiration period of the non-capital tax loss carry-forwards, and other deferred tax assets which do not expire.

As at April 3, 2021, the Company had Canadian non-capital tax loss carryforwards of $64.2 million that expire in 2031, $8.3 million that expire in 2039, $1.2 million that expire in 2040, and $14.7 million that expire in 2041, as well as capital losses of $2.4 million. The Company also had $8.1 million of both U.S. federal and U.S. state non-capital losses in the states in which it operates. The federal losses have no expiration, and the state losses expire between 2039 and 2041.

Significant components of income tax expense are as follows:

(thousands of Canadian dollars)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020
Current income tax expense	**–**	–
Deferred income tax expense		
Origination and reversal of temporary differences	**(10,194)**	(25,588)
Deferred income tax recovery relating to change in non-capital loss carryforwards	**(5,158)**	(174)
Deferred income tax recovery relating to change in capital loss carryforwards	**–**	(319)
Adjustment resulting from a change in substantively enacted tax rates and expected pattern of reversal	**122**	1,423
Adjustment for deferred tax assets not recognized	**16,343**	109,471
Other, net	**(96)**	(101)
Total income tax expense	**1,017**	84,712

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

(thousands of Canadian dollars)	**53-week period ended April 3, 2021**	%	52-week period ended March 28, 2020	%
Loss before income taxes	**(56,850)**		(100,286)	
Tax at combined federal and provincial tax rates	**(15,063)**	**26.5 %**	(26,838)	26.8 %
Tax effect of expenses not deductible for income tax purposes	**374**	**(0.7)%**	573	(0.6)%
Adjustment to deferred tax assets resulting from reduction in substantively enacted tax rates and expected pattern of reversal	**122**	**(0.2)%**	1,423	(1.4)%
Adjustment for deferred tax assets not recognized	**16,343**	**(28.7)%**	109,471	(109.2)%
Adjustment with respect to prior periods	**(824)**	**1.4 %**	459	(0.5)%
Other, net	**65**	**(0.1)%**	(376)	0.4 %
	1,017	**(1.8)%**	84,712	(84.5)%

15. PROVISIONS

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

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

(thousands of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Balance, beginning of period	**2,503**	105
Arising during the year	**689**	2,398
Balance, end of period	**3,192**	2,503

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

16. CONTINGENCIES

Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2021 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position or financial performance, except for those amounts that have been recorded as provisions on the Company's consolidated balance sheets.

17. SHARE CAPITAL

Share capital consists of the following:

	53-week period ended April 3, 2021		52-week period ended March 28, 2020	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,273,961**	**226,986**	27,136,386	225,531
Issued during the period				
Directors' deferred stock units converted	**–**	**–**	137,575	1,455
Balance, end of period	**27,273,961**	**226,986**	27,273,961	226,986

18. SHARE-BASED COMPENSATION

The Company has established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan as at April 3, 2021 is 3,591,094 (March 28, 2020 – 3,591,094). Most options granted after 2013 have a five-year term, with one third of the options granted being exercisable one year after the date of issue, and the remainder exercisable in equal installments on the anniversary date over the next two years. Stock options granted after August 2019 vest over a two-year period, while all other outstanding options vest over the above referenced three-year period. The vesting schedule was changed in fiscal 2020 to reward and retain plan participants. Each option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During fiscal 2021, the pre-forfeiture value of options granted was $0.8 million (2020 – $1.3 million). The weighted average fair value of options issued in fiscal 2021 was $1.30 per option (2020 – $1.49 per option).

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

	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Black-Scholes option pricing assumptions		
Risk-free interest rate	0.3%	1.3%
Expected volatility	64.6%	32.9%
Expected time until exercise	2.6 years	2.6 years
Expected dividend yield	–	–
Other assumptions		
Forfeiture rate	25.7%	26.7%

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

	53-week period ended April 3, 2021		52-week period ended March 28, 2020	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	2,218,488	12.21	1,737,593	15.34
Granted	1,077,500	1.74	905,000	6.74
Forfeited	(815,975)	10.10	(306,205)	14.73
Expired	(104,538)	10.99	(117,900)	10.46
Exercised	–	–	–	–
Outstanding options, end of period	2,375,475	7.90	2,218,488	12.21
Options exercisable, end of period	1,157,825	13.43	995,913	15.73

A summary of options outstanding and exercisable is presented below:

	As at April 3, 2021				
	Outstanding			Exercisable	
Range of exercise prices C$	Number #	Weighted average exercise price C$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C$
1.00 – 1.56	655,000	1.00	4.2	–	–
1.57 – 5.47	262,500	4.02	4.8	–	–
5.48 – 6.92	528,000	6.60	3.4	314,000	6.60
6.93 – 15.38	335,025	11.60	2.7	248,875	12.75
15.39 – 18.40	594,950	17.32	1.1	594,950	17.32
1.00 – 18.40	2,375,475	7.90	3.1	1,157,825	13.43

Directors' Compensation

The Company has established a Directors' Deferred Stock Unit Plan ("DSU Plan"). Under the DSU Plan, Directors annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred stock units ("DSUs") or receive up to 50% of this compensation in cash. All Directors' compensation during the year was issued in the form of DSUs, with the exception of cash awards of less than $0.1 million (2020 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. The Company issued 164,979 DSUs with a value of $0.3 million during the year (2020 – 76,269 DSUs with a value of $0.3 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at April 3, 2021 was $3.2 million (March 28, 2020 – $4.4 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

19. 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)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020
Print [1,4]	**527,985**	539,288
General merchandise [2,4]	**354,364**	401,370
Other [3]	**22,389**	17,064
Total	**904,738**	957,722

1 Includes books, magazines, newspapers, eReaders, and related shipping revenue.
2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.
3 Includes Indigo cafés, irewards, gift card breakage, *plum*® breakage, *plum*® PLUS membership fees ("*plum* PLUS revenue"), corporate sales, and Rakuten Kobo Inc. ("Kobo") revenue share.
4 Certain comparative information relating to eReaders has been reclassified to conform to the current year's presentation.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**53-week period ended April 3, 2021**	52-week period ended March 28, 2020
Superstores [1]	**439,797**	655,844
Small format stores [1]	**72,597**	122,138
Online (including store kiosks)	**369,955**	162,676
Other [2]	**22,389**	17,064
Total	**904,738**	957,722

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

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Wages, salaries, and bonuses	**146,959**	172,597
Short-term benefits expense	**17,857**	20,807
Termination benefits expense	**7,138**	6,027
Retirement benefits expense	**1,847**	1,774
Share-based compensation	**666**	1,268
Total employee benefits expense	**174,467**	202,473

In fiscal 2021, the Company has recognized payroll subsidies from the COVID-19 Canada Emergency Wage Subsidy ("CEWS") program of $27.4 million (2020 – not applicable). These subsidies were recorded as a reduction in the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses. Of the amount recognized, $7.3 million remains outstanding in accounts receivable as at April 3, 2021.

Termination benefits arise when the Company terminates certain employment agreements.

Contingent rents recognized as an expense during fiscal 2021 were $0.9 million (2020 – $1.5 million).

20. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted loss per share amounts under the treasury stock method, the numerator remains unchanged from the basic loss per share calculations as the assumed exercise of the Company's stock options does not result in an adjustment to net loss. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the April 3, 2021 and March 28, 2020 diluted loss per share calculations.

The weighted average number of common shares outstanding for fiscal 2021 was 27,664,268 (2020 – 27,515,109).

21. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Accounts receivable	**(15,336)**	2,903
Inventories	**26,698**	10,729
Prepaid expenses	**(6,216)**	(260)
Income taxes recoverable	**138**	345
Other assets	**200**	(1,467)
Accounts payable and accrued liabilities (current and long-term) and other[1]	**(18,207)**	(16,126)
Unredeemed gift card liability	**6,380**	2,944
Provisions (current and long-term)	**689**	2,398
Deferred revenue	**5,804**	3,046
Net change in non-cash working capital balances	**150**	4,512

1 This change has been impacted by the adoption of IFRS 16.

22. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are:

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

There were no changes to these objectives during the year. The primary activities engaged by the Company to generate attractive returns for shareholders include transforming its digital platforms and driving productivity improvement through investments in information technology and distribution infrastructure to support the Company's sales networks. The Company's main sources of capital are its current cash position, short-term investments, and cash flows generated from operations. Cash flow is primarily used to fund working capital needs and capital expenditures. The Company manages its capital structure in accordance with changes in economic conditions.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Foreign Exchange Risk

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

The Company uses derivative instruments in the form of forward contracts to manage its exposure to fluctuations in U.S. dollar exchange rates. As the Company has hedged a significant portion of the cost of its near-term forecasted U.S. dollar purchases, a change in foreign currency rates will not impact that portion of the cost of those purchases.

In fiscal 2021, the effect of foreign currency translation on other comprehensive income (loss) was a loss of $0.1 million (2020 – gain of $0.4 million), and the effect of foreign currency transactions on net loss was a loss of $1.9 million (2020 – gain of $0.5 million).

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash, cash equivalents, and short-term investments. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk. The Company does not currently have any debt.

Credit Risk

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

Accounts receivable primarily consist of receivables from retail customers who pay by credit card, recoveries of credits from suppliers for returned or damaged products, and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables are closely monitored. In fiscal 2021, accounts receivable included material balances outstanding from the Government of Canada associated with emergency COVID-19 support, which has been assessed to have minimal credit risk.

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

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its obligations relating to its financial liabilities. The Company manages liquidity risk by preparing and monitoring cash flow budgets and forecasts to ensure that the Company has sufficient funds to meet its financial obligations and fund new business opportunities or other unanticipated requirements as they arise.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2022. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by risks associated by the COVID-19 pandemic, as discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity, as it currently has no outstanding debt financing, and reduce capital spending if necessary. However, the COVID-19 pandemic creates a number of additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company.

The contractual maturities of the Company's current and long-term liabilities as at April 3, 2021 are as follows:

(thousands of Canadian dollars)	Payments due in the next 90 days	Payments due between 90 days and less than a year	Payments due after 1 year	Total
Accounts payable and accrued liabilities	139,482	5,711		145,193
Provisions	1,856	509	–	2,365
Short-term lease liabilities	17,368	50,235	–	67,603
Long-term accrued liabilities	–	–	2,090	2,090
Long-term provisions	–	–	827	827
Long-term lease liabilities	–	–	482,671	482,671
Total	158,706	56,455	485,588	700,749

24. RELATED PARTY TRANSACTIONS

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

Transactions with Key Management Personnel

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

(thousands of Canadian dollars)	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Wages, salaries, and bonus	5,156	3,612
Short-term benefits expense	151	154
Termination benefits expense	1,437	793
Retirement benefits expense	66	68
Share-based compensation	469	767
Directors' compensation	294	293
Total remuneration	**7,573**	5,687

Transactions with Shareholders

During fiscal 2021, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2021, the Company paid $0.3 million for these transactions (2020 – $2.2 million). As at April 3, 2021, Indigo had $0.1 million payable to these companies under standard payment terms (March 28, 2020 – $0.1 million). In prior periods, an amount of restricted cash had been pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies, however there was no amount pledged as at April 3, 2021 (March 28, 2020 – $1.0 million restricted cash). 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 second quarter of fiscal 2021, the Company entered into a secured revolving credit facility of $25 million with a company controlled by Mr. Gerald W. Schwartz. The non-interest bearing facility was issued on favourable commercial terms to Indigo. The purpose of the credit facility was to allow the Company to manage the seasonal nature of cash flows in the most effective manner. No advances were made on the facility, which matured on February 1, 2021.

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 19 "Supplementary Operating Information". The Company has not entered into other transactions with the retirement plan.

Transactions with Associates

The Company had immaterial transactions with Unplug during the 53-week period ended April 3, 2021, and the comparable period in the prior year.

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

25. SUBSEQUENT EVENTS

On June 1, 2021, a secured revolving credit facility for $25 million was approved by the Company's Board of Directors from a company controlled by Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo. The non-interest bearing facility will be issued on favourable commercial terms, and will have a maturity date of February 1, 2022. The credit facility is not convertible, directly or indirectly, into equity or voting securities. The purpose of this credit facility is to allow the Company to manage its operations in the most effective manner.

Corporate Governance Policies

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

Executive Management and Board of Directors

As at June 1, 2021

EXECUTIVE MANAGEMENT

Heather Reisman
Chair and Chief Executive Officer

Peter Ruis
President

Gildave (Gil) Dennis
Chief Operating Officer

Andrea Limbardi
Chief Digital Officer

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

Bahman (Bo) Parizadeh
Chief Technology Officer

Nathan Williams
Chief Creative Officer

BOARD OF DIRECTORS

Frank Clegg
Volunteer Chairman and Chief Executive Officer
C4ST (Canadians for Safe Technology)

Jonathan Deitcher
Investment Advisor
RBC Dominion Securities Inc.

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

Howard Grosfield
Executive Vice President and General Manager
US Consumer and Global Premium Services
American Express

Robert Haft
Managing Partner
Morgan Noble Healthcare Partners

Andrea Johnson
Chief Executive Officer
Rally Reader, LLC

Anne Marie O'Donovan
President
O'Donovan Advisory Services Ltd.

Chika Stacy Oriuwa
Medical Doctor
Psychiatry Resident, University of Toronto

Heather Reisman
Chair and Chief Executive Officer
Indigo Books & Music Inc.

Gerald Schwartz
Chairman and Chief Executive Officer
Onex Corporation

Five-Year Summary of Financial Information

For the years ended (financial information in millions of Canadian dollars, except per share data)	April 3, 2021[1]	March 28, 2020[1]	March 30, 2019	March 31, 2018[2]	April 1, 2017[2]
SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	**439.8**	655.8	711.4	728.6	702.1
Small format stores	**72.6**	122.1	144.8	143.6	140.7
Online	**370.0**	162.7	175.9	176.8	148.2
Other	**22.3**	17.1	14.7	30.6	29.0
Total revenue	**904.7**	957.7	1,046.8	1,079.6	1,020.0
Adjusted EBITDA[3]	**(28.3)**	(7.3)	(19.1)	55.2	52.4
Earnings (loss) before income taxes	**(56.9)**	(100.3)	(49.6)	30.7	29.2
Net earnings (loss)	**(57.9)**	(185.0)	(36.8)	21.9	21.0
Net earnings (loss) per common share	**$(2.09)**	$(6.72)	$(1.35)	$0.82	$0.80
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	**46.1**	85.2	164.1	258.8	248.9
Total assets	**799.5**	883.0	610.5	634.0	609.3
Total liabilities	**776.9**	799.0	240.3	231.6	236.8
Total equity	**22.6**	84.0	370.1	402.4	373.3
Weighted average number of common shares outstanding	**27,664,268**	27,515,109	27,354,358	26,849,418	26,384,775
Common shares outstanding at end of period	**27,273,961**	27,273,961	27,136,386	26,800,609	26,351,484
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**88**	88	89	86	89
Small format stores	**89**	108	115	123	123
Selling square footage at end of period (in thousands)					
Superstores	**1,941**	1,941	1,962	1,887	1,953
Small format stores	**231**	279	287	308	304
Sales per selling square foot					
Superstores	**227**	338	363	386	360
Small format stores	**314**	438	504	467	463

1 The Company implemented IFRS 16 *Leases* in fiscal 2020 using the modified retrospective approach. As a result, the Company's fiscal 2020 and 2021 results reflect lease accounting under IFRS 16 *Leases*, while the prior years have not been restated.

2 The Company implemented IFRS 15 *Revenue from Contracts with Customers*, in fiscal 2019 using the full retrospective transition method. As a result, certain prior year balances were restated.

3 In fiscal 2021, an adjustment was made for lease-related expenses in the calculation of Adjusted EBITDA. This represents a change in calculation methodology from the prior fiscal year. Fiscal 2020 has been consistently stated, while other years, prior to the implementation of IFRS 16 *Leases*, have not been restated.

In fiscal 2020 and 2021, Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of loss from equity investments, and includes IFRS 16 right-of-use asset depreciation and associated finance charges.

In fiscal 2019 and prior years, Adjusted EBITDA was defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and share of earnings (loss) from equity investments.

For further information, see "Non-IFRS Financial Measures" in the Company's Management Discussion and Analysis section of the Annual Report.

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

Madeleine Lowenborg-Frick
Director, Corporate Communications
MLowenborgFrick@indigo.ca
Telephone (647) 326-6633

STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

IDG

TRANSFER AGENT AND REGISTRAR

AST Trust Company (Canada)
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: inquiries@astfinancial.com
Website: www.astfinancial.com/ca-en

AUDITORS

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

ANNUAL MEETING

The 2021 Annual Meeting of Shareholders of Indigo Books & Music Inc. will be held on July 15, 2021 at 10:00 a.m. via live audio webcast at: https://web.lumiagm.com/423445804

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Indigo's Commitment to Communities Across Canada

The Company supports a separate registered charity, called the Indigo Love of Reading Foundation (the "Foundation"), which is committed to addressing the underfunding of Canadian elementary school libraries and the resulting literacy challenges children face in such schools. The Foundation's goal is to raise awareness of the lack of funding in Canadian schools and close the budget gap by providing new books and educational resources to high-needs children across Canada. The Foundation accomplishes this goal through its $1.5 million annual Literacy Fund grants and its grassroots Indigo Adopt a School program that unites Indigo staff, local schools, and their communities to raise money for new and engaging books for elementary school libraries. Most recently, in the wake of the COVID-19 pandemic and the unprecedented nation-wide school closures, the Foundation committed $1.0 million to provide books to families in need. With the support of the Company, its customers, employees, and suppliers, the Foundation has committed over $33 million to more than 3,000 high-needs elementary schools across Canada since 2004. The Foundation is dedicated to putting books in the hands of children to support a lifelong love of reading.

Our Beliefs

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

"When you get right down to it, intentional living is about living your best story."

—John C. Maxwell

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