ANNUAL REPORT FOR THE 52-WEEK PERIOD ENDED APRIL 2, 2022

Indigo

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*, and *indigo.ca*.
The Company employs approximately 5,000 people across the country.

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Report of the CEO

Dear Shareholder,

As always, it is my pleasure to be writing to you sharing the highlights of the recently ended year.

2021/2022 was another year of advancing our business notwithstanding the continued impact of COVID on our customers, our employees, and the supply chains so central to our performance.

I am pleased to report that on five key indices of business 'health' – Indigo achieved satisfying results. The Company delivered 17.4% year-over-year sales growth; returned to profitability; continued to add excellent new team members to support an ambitious agenda; maintained high employee engagement; and sustained record high brand affection from our customers.

Less measurable in the short term, we have used the challenges and lessons of living through a pandemic to 'muscle build' in ways that will strengthen future sales and profitability. To highlight just two areas of focus:

People Strategy

There is no question that two years of remote work and the stresses of COVID have had an impact on how people feel and think and want to work.

We are therefore adapting key elements in our People Management Processes to ensure rich alignment with emerging changes in employee values.

We are thoughtfully shaping a hybrid work model to leverage the clear advantages of work in person, with the equally valuable option to avoid travel time when doing so is not productive.

We are also revisiting key aspects of our Staffing Process and our Potential Development/Career Planning process.

The advances we are making in these processes are significant. They will simultaneously address evolving values and tap into energy, creativity, and commitment.

While these efforts began in the year just past – they will continue to be a big focus moving forward. Our goal always – to attract and retain the best people.

Supply Chain

Though always important, the pandemic brought into full relief the strategic need for flexible, ever more productive, and ever more environmentally sensitive supply chains – from end to end.

Indigo used this past year to make some immediately implementable advances which allowed us to thrive through the constantly changing demands created by COVID spikes and retreats. More importantly, we gained learning and insights during the past 24 months which is now influencing a fundamental rethink in every area of supply chain from product sourcing through to end delivery of product to our customers – whether in stores or at home.

Supply chain advances will continue to be a major focus during the upcoming year.

In other areas

Sustainability

This past year, we further advanced our commitment to a zero-carbon footprint by 2035. We publicly launched our ***Write the Future*** program and committed to reporting on advances. While we have a Director of Sustainability, it is worth noting that achievements against our stated objectives rest with the Executive Team.

Retail in the 21st Century

A trend that is now irrefutable is that retail is about being boldly and intelligently planted in both the digital and physical world. And in understanding how to leverage functional capabilities of each to provide the very best service and experience for our customer.

Over the past year we have been hard at work on an exciting new digital platform which will launch before our all-important holiday quarter. We also are at the drawing boards for a totally new physical retail experience which will continue our life-long commitment to being a meaningful participant in every community in which we operate. Together our 'bricks and clicks' strategy is designed to sustain our position as our customers' 'happy place'.

Speaking of physical stores, a few years ago – and just before the pandemic – we shared that we had opened our first U.S.-based Indigo with the intention of testing and learning. COVID then put a short-term halt on this expansion effort. I am pleased to share however that Indigo Short Hills is thriving. And we indeed have learned a lot. Stay tuned for further plans.

Indigo Love of Reading Foundation

From our inception we have had a commitment to giving back. Our main focus is on childhood literacy in high needs communities. I am pleased to share that since its inception, and in partnership with our customers, the Indigo Love of Reading Foundation has committed over $33 million to support children's literacy and promote educational equity in communities across Canada. This past year we supercharged our efforts, knowing how challenged our Indigo Love of Reading communities were by school closings. We are proud to have partnered with over 200 schools where we donated over 200,000 books. With this effort we reached children in need across every province and territory in Canada.

Looking forward

As we look to the year ahead and beyond, we see tremendous potential for our brand and by extension – our business. Know that we value your trust in us and that we come to work every day focused on being the very best we can be.

Finally, I can't close this letter without a big call out to the incredible people who make up the Indigo organization. For a second year in a row – and with all the stresses and demands of COVID continuing to 'add up' the Indigo team did a stellar job of delivering – for our customers, our suppliers, our shareholders, and each other. Thank you all!!

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

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 2, 2022 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week period ended April 2, 2022 and 53-week period ended April 3, 2021. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein.

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

Overview

Indigo is Canada's leading book and lifestyle retailer and was formed as a result of the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company offers a curated assortment of books, gifts, baby, kids, wellness and lifestyle products, that supports customers by simplifying their journey to *Living with Intention*™. The Company operates retail stores in all ten provinces and one territory in Canada, and also has retail operations in the United States through a wholly-owned subsidiary, operating one retail store in Short Hills, New Jersey. The retail network includes 88 superstores (2021 – 88) under the *Indigo* and *Chapters* names, as well as 85 small format stores (2021 – 89) under the banners *Coles* and *Indigospirit*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

Throughout fiscal 2022, the Company employed an average of approximately 5,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of $1,062.3 million. The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), 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 materials to high-needs elementary schools and children across the country through donations from Indigo, its customers, its suppliers, and its employees.

Statement on COVID-19

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

The Company undertook the following actions in fiscal 2022:

- Participated in rolling closures of its retail network, as directed by local governments and public health authorities. This notably included province-wide closures in Ontario that negatively impacted the Company's retail operations through the majority of the first quarter; store locations with external entrances re-opened on June 1, 2021, with remaining store locations in the province having re-opened on June 29, 2021. The Company successfully executed on the reopening of 93 closed retail stores across Canada with a focus on driving operational effectiveness.

- In December 2021, the Company responded to the adverse impact of the Omicron variant on retail foot traffic patterns and implemented mandated government capacity restrictions, which most notably included a fifty percent reduction in capacity in the province of Ontario during critical selling weeks.
- Recognized $7.7 million of COVID-19 occupancy expense abatement as a direct response to the economic impact of the COVID-19 pandemic, compared to $15.5 million in the prior year. The Company continues to negotiate with landlords regarding abatement to share the financial burden of COVID-19.
- Applied for the Canada Emergency Rent Subsidy ("CERS") program and recognized rent subsidies of $2.9 million, compared to $1.1 million in the prior year.
- Applied for the Canada Emergency Wage Subsidy ("CEWS") program and recognized payroll subsidies of $2.3 million, compared to $27.4 million in the prior year.
- Entered into a $25.0 million related party revolving line of credit to enhance the Company's liquidity in response to uncertainty surrounding the pandemic's financial impacts. No advances were made on the non-interest bearing facility, which matured on February 1, 2022.
- Forecasted inbound inventory receipts to account for modest delays as a result of disruption to the global supply chain based on the monitored impacts of higher inbound freight costs and constrained shipping capacity.
- Effectively mitigated disruption to its print business, stemming from the raw material scarcity and distribution delays experienced across the publishing industry, by shifting inventory purchases earlier in the planning season. As a result, the Company had sufficient inventory on-hand for bestselling titles and its back list catalogue to fulfill an increased demand for books during the holiday season.

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

Future Developments

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

These future developments include new information regarding vaccination rates and efficacy, disease immunity, the recurrence of waves of significant infections, as well as ongoing consumer fears about the disease that could adversely affect traffic to Indigo's stores and demand for its products, among others. The downstream impacts of pandemic-related disruptions have adversely impacted the global supply chain, and future developments could further strain the availability of raw materials to produce inventory desired by the Company's buying teams, as well as the timing and cost of shipment and logistics to fulfill consumer demand. This includes the adverse impact of pandemic restrictions mandated by governments in fiscal 2022 in global shipping ports like Shanghai, and the delays in the inbound receipt of goods caused as a consequence of these developments.

The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impacts of the COVID-19 pandemic on the Company. 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 omni-channel cultural environment filled with books, lifestyle, paper, kids and baby 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 to live their best lives – lives on purpose, by providing life-enriching products, inspirational content and illuminating experiences. With a meaningfully curated assortment and expert advice from the Indigo team, the Company endeavours to empower its customers to actively identify what they value the most and support them to live in alignment with those values. As the retail landscape has shifted over the past two decades, Indigo's differentiated in-store and digital experience has evolved to align to the changing needs of its employees, customers, and the communities it serves.

The Company's priorities over the past three years and key strategies moving forward include accelerating its assortment of thoughtfully curated products, developing Indigo's store of the future, redefining Indigo's digital presence, reimagining its loyalty programs and fostering high performing teams.

Accelerate Assortment Transformation

Indigo celebrates culture-makers and creators including authors, artists, designers, chefs, musicians, and thought leaders. For consumers looking to invest in pursuing their passions and living life fully, 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"), LOVE & LORE®, Auria™, 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.

In fiscal 2022, management enhanced its merchandising practices and onboarding tool set to accelerate the growth of Indigo's general merchandise assortment. The Company's lifestyle category continues to drive meaningful growth for the general merchandise business, with entry into new product lines like gourmet goods, cookware and bedding deepening its targeted assortment. Indigo also partnered with Canadian technology start-up, Convictional, to accelerate its growth through third-party sellers by refining the Company's drop ship seller experience, delivering curation at scale on its digital platforms. These efforts worked in tandem with stronger merchandising practices, which included a reduced promotional cadence and bold strategic inventory bets, to lift the business's full-priced sell-through. This strengthened assortment, coupled with compelling decision support from the Company's retail and digital channels, acts as a robust platform for the Company's current growth trajectory.

Develop Indigo's Store of the Future

Indigo's stores reflect its transformation from a bookstore to a cultural concept store; 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 check-out experience, and it has become a critical delivery solution through the COVID-19 pandemic. The Company also launched curbside pick-up to allow for contactless sales transactions and integrated with third party same-day fulfillment solutions like Instacart and Cornershop by Uber, where customers can have their orders delivered in less than two hours in serviced markets.

In fiscal 2021, in light of COVID-19, the Company accelerated its review of its real estate portfolio, closing 20 small format stores. In fiscal 2022, the Company closed four small format stores. The Company will continue to assess how the physical retail landscape has evolved with a fundamental shift in consumer behaviour, to reimagine Indigo's 'Store of the Future'. Planning also commenced on two new concept stores in fiscal 2022 as the Company reimagines the experience and role of the physical store; these new concept stores will be opening in fiscal 2023 and 2024 in Ottawa and downtown Toronto, respectively.

In fiscal 2022, the Company renegotiated its partnership with Starbucks Coffee Canada, Inc.; moving forward, 36 cafés will continue to operate as Starbucks within Indigo stores, while the remaining cafés located in the Company's superstore format, which have been closed throughout the course of the COVID-19 pandemic, will be reimagined under the evolving Indigo brand retail experience. The Company also announced a new partnership with Good Earth Cafes Ltd. to bring their Coffeehouse experience to select locations across communities in Canada. This partnership marks the start of Indigo's intention to reimagine and convert its available café spaces, with a market-by-market, and sometimes store-by-store approach, offering customers regional relevance and supporting local businesses. The focus will be on exceptional customer experience, delicious food, and drink, and partnering with like-minded values-based organizations across the country.

Redefine Indigo's Digital Presence

In addition to reshaping Indigo's physical store offerings, the Company continues to meaningfully invest in its digital platforms to bring inspirational content and product to its customers, while enhancing their shopping experience.

Today's Indigo online channels offer customers access to over 15 million book titles, along with a meaningfully curated assortment of general merchandise, all to help a customer connect to the things that matter most to them.

To achieve this, the Company leveraged available capacity in its Calgary distribution center in the first half of fiscal 2020 to better serve online customers in Western Canada. The abrupt pivot to digital across the entire organization in the fourth quarter of fiscal 2020, at the inception of the COVID-19 pandemic, 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.

In fiscal 2020, Indigo also 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 sophisticated assortment of giftable experiences, services, and subscriptions. Thoughtfull™ has continued to be a platform to service customers virtually, while providing further insight to the Company about customers' experiential purchasing patterns.

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

To extend the strong affinity for its retail store experience to Indigo.ca, the Company embarked on a transformation strategy in fiscal 2022 to fully re-design a connected shopping experience and modernize its ecommerce technology. This included Indigo entering into an agreement with Salesforce for its market-leading commerce cloud solution to function as a critical pillar of its new digital architecture, offering personalized and tailored digital experiences. These efforts will deliver an innovative and agile platform that will allow the Company to fully realize the potential of the ecommerce opportunity unlocked by accelerated adoption during the global pandemic. The Company also introduced new digital marketing tools into its ecommerce partner ecosystem in fiscal 2022 to enhance the effectiveness of its performance marketing program.

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 425,000 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.

Reimagine Loyalty Programs

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. The *plum*® PLUS program has since grown beyond the milestone of 500,000 members and is increasingly becoming a strategic vehicle for the Company to meaningfully engage with its most loyal customers.

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

As an annual fee-based program, *plum*® PLUS offers free shipping, member discounts, and exclusive offers as incremental benefits to the redeemable points offered on almost all products purchased. This membership tier has delivered on engaging Indigo's best customers, in addition to driving frequency and a meaningful lift in average transaction values. The success of this program continues to deepen the Company's understanding of its customers and to deliver a unique and personalized member experience at key moments. In fiscal 2023, the Company will continue to build its customer-first culture by strengthening its capabilities to personalize each member touch point, providing a rich omni-channel shopping experience.

Foster High Performing Teams

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 2020, Forbes selected Indigo as one of Canada's Best Employers in 2019 based on an independent survey from a vast sample of more than 8,000 Canadian employees working for companies employing at least 500 people in their Canadian operations. Indigo was ranked 125th out of all selected organizations and 12th in the retail category. 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. In fiscal 2022, Indigo was recognized as a leading employer by Forbes Best Employer and Globe and Mail's Women Lead Here ROB awards.

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 2022.

Results of Operations

The following three tables summarize selected financial and operational information for the Company. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the consolidated financial statements for the 52-week period ended April 2, 2022, 53-week period ended April 3, 2021 and 52-week period ended March 28, 2020.

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

(millions of Canadian dollars)	52-week period ended April 2, 2022	% Revenue	53-week period ended April 3, 2021	% Revenue
Revenue	**1,062.3**	**100.0**	904.7	100.0
Cost of sales	**(619.2)**	**58.3**	(567.9)	62.8
Cost of operations	**(245.7)**	**23.1**	(212.8)	23.5
Selling, general and administrative expenses	**(104.3)**	**9.8**	(83.6)	9.2
Depreciation of right-of-use assets	**(36.1)**	**3.4**	(43.0)	4.8
Finance charges related to leases	**(24.5)**	**2.3**	(25.7)	2.8
Adjusted EBITDA[1]	**32.5**	**3.1**	(28.3)	3.1
Depreciation of property, plant and equipment	**(16.0)**	**1.5**	(17.2)	1.9
Amortization of intangible assets	**(11.9)**	**1.1**	(12.9)	1.4
Gain (loss) on disposal of capital assets	**0.0**	**0.0**	0.8	0.1
Net interest income	**0.8**	**0.1**	0.9	0.1
Share of loss from equity investment	**0.0**	**0.0**	(0.2)	0.0
Impairment loss from equity investment	**(2.0)**	**0.2**	–	–
Earnings (loss) before income taxes	**3.3**	**0.3**	(56.9)	6.3

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

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

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

(millions of Canadian dollars, except per share data)	52-week period ended April 2, 2022	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Revenue			
Superstores	595.5	439.8	655.8
Small format stores	93.1	72.6	122.1
Online	321.7	370.0	162.7
Other	52.0	22.3	17.1
	1,062.3	904.7	957.7
Earnings (loss) before income taxes	3.3	(56.9)	(100.3)
Income tax expense	–	(1.0)	(84.7)
Net earnings (loss)	3.3	(57.9)	(185.0)
Total assets	809.4	799.5	883.0
Lease liabilities (including current portion)	517.2	550.3	568.6
Working capital	58.3	46.1	85.2
Basic earnings (loss) per common share	$0.12	$(2.09)	$(6.72)
Diluted earnings (loss) per common share	$0.12	$(2.09)	$(6.72)

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

	52-week period ended April 2, 2022	53-week period ended April 3, 2021	52-week period ended March 28, 2020
Stores Opened			
Superstores	–	–	–
Small format stores	–	1	–
	–	1	–
Stores Rebranded, Relocated, or Renovated			
Superstores	9	–	3
Small format stores	–	–	–
	9	–	3
Stores Closed			
Superstores	–	–	1
Small format stores	4	20	7
	4	20	8
Number of Stores Open at Year-End			
Superstores	88	88	88
Small format stores	85	89	108
	173	177	196
Selling Square Footage at Year-End (in thousands)			
Superstores	1,941	1,941	1,941
Small format stores	222	231	279
	2,163	2,172	2,220

Revenue

Total consolidated revenue for the 52-week period ended April 2, 2022 increased $157.6 million or 17.4% to $1,062.3 million from $904.7 million for the 53-week period ended April 3, 2021, exceeding the Company's top-line performance in the preceding three fiscal years. The Company experienced a strong recovery in its retail channel and an ecommerce business that, while moderating to last year's COVID-19 peak, sustained incremental growth of 98% to fiscal 2020 levels. This was driven by an exceptionally well-received product strategy, which saw increased demand for its diversified businesses and a refined promotional cadence that drove improvements in full-priced sell-through for its assortment. These sales were generated despite absorbing downward pressures from challenging market and operational conditions, which included the Omicron variant and severe pandemic conditions during its seasonally-strong third quarter.

Increased revenue was realized across the Company's print and general merchandise businesses. Strong demand for print lifted category sales 8% to last year, largely driven by the popularity of reading on TikTok (#BookTok), driving significant sales in both new and previously released titles. Revenue was further buoyed by the success of the Company's evolving general merchandise assortment with exceptional sales growth of over 30% in both its lifestyle and baby product categories. The Company's proprietary home brand OUI and proprietary paper brand NÓTA™ also delivered exceedingly strong sales, together driving over a quarter of the total revenue growth for fiscal 2022.

Retail revenue, which is inclusive of orders fulfilled through omnichannel store pick-up, increased by $176.2 million or 34.4% to $688.6 million for the 52-week period ended April 2, 2022 compared to $512.4 million in the prior year. Customers' desire to shop in-store drove a rebound in retail revenue as COVID-19 containment measures eased year-over-year and customers shopped with intent. Conversion rates experienced only a modest decline as traffic increased meaningfully to last year and average transaction values grew over the last two fiscal years. The channel's strong sales trajectory delivered a full rebound to pre-pandemic sales during the third quarter, before the adverse impact of Omicron was experienced during critical selling weeks that included Christmas and Boxing Day. The retail channel continued to face pressures in its fourth quarter, as the impact of Omicron subsided and other macroeconomic headwinds impacted consumer behaviour.

Online revenue decreased by $48.3 million or 13.1% to $321.7 million for the 52-week period ended April 2, 2022 compared to $370.0 million in the prior year, as demand moderated from the height of COVID-19 lockdowns last year and the Company's retail channel recovered. Notably, customers are increasingly beginning their purchase journey on the Company's digital platforms, contributing to high in-store conversion. As noted, the online business sustained 98% growth to fiscal 2020 sales, and continues to be a lever of growth and investment focus for the Company.

The Company has historically reported on comparable sales, a key performance indicator in prior years. Due to the rolling store closures from COVID-19 and the impact of social distancing and fluctuating government-mandated capacity constraints in reopened stores, the Company believes that comparable sales are not currently representative of the underlying trends of its business. Due to the diminished relevance of this key performance indicator, comparable sales are not further discussed in this report.

Revenue from other sources includes corporate sales, *plum*® PLUS membership fees ("*plum*® PLUS revenue"), revenue from unredeemed *plum*® points ("*plum*® breakage"), revenue from unredeemed gift cards ("gift card breakage"), revenue-sharing with Rakuten Kobo Inc. ("Kobo"), irewards card sales and other non-merchandise revenue. Revenue from other sources increased $29.7 million or 133.2% to $52.0 million for the 52-week period ended April 2, 2022 compared to $22.3 million in the prior year. The increase was driven by *plum*® PLUS revenue as the paid loyalty tier program continued to attract new customers over the course of the year. Revenues also benefited from the one-time payment of $17.0 million from Starbucks Coffee Canada, Inc. ("Starbucks"), on the renegotiation of its partnership with the Company.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021	% increase/ (decrease)
Superstores[1]	**595.5**	439.8	35.4
Small format stores[1]	**93.1**	72.6	28.2
Online (including store kiosks)	**321.7**	370.0	(13.1)
Other[2]	**52.0**	22.3	133.2
Total	**1,062.3**	904.7	17.4

1 Includes sales on orders placed on *indigo.ca* and fulfilled through store pick-up.
2 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, Kobo revenue share, irewards and a one-time payment from Starbucks.

Revenue by product line is as follows:

	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Print[1]	**53.6%**	58.4%
General merchandise[2]	**41.5%**	39.2%
Other[3]	**4.9%**	2.4%
Total	**100.0%**	100.0%

1 Includes books, magazines, newspapers, eReaders, and related shipping revenue.
2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.
3 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased by $51.3 million to $619.2 million for the 52-week period ended April 2, 2022, compared to $567.9 million in the prior year. As a percentage of total revenue, cost of sales decreased to 58.3% compared to 62.8% in the prior year.

Excluding the impact of online shipping costs, cost of sales increased by $55.0 million to $560.8 million for the 52-week period ended April 2, 2022, compared to $505.8 million in the prior year. As a percentage of total revenue, cost of sales excluding the impact of online shipping costs decreased to 52.8% compared to 55.9%. The Company delivered its highest-ever omni-channel merchandise margin rate, impacted by strategic shifts made to the Company's promotional cadence and discounting activities. This was furthered by the rebound of the Company's retail channel, which typically has a higher margin profile, while the online channel also delivered record merchandise margin rate performance (excluding the impact of shipping costs). These improvements blunted the impacts of higher inbound freight costs triggered by global supply chain constraints.

Online shipping costs decreased by $3.7 million to $58.4 million for the 52-week period ended April 2, 2022, compared to $62.1 million in the prior year. While the variable rate of shipping increased, impacted by fuel surcharges and shipping premiums surrounding the severe flooding in British Columbia in the third quarter, the absolute costs decreased compared to the prior year, largely in response to the tempered demand in the online channel.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $32.9 million to $245.7 million for the 52-week period ended April 2, 2022, compared to $212.8 million in the prior year. As a percent of total revenue, cost of operations decreased to 23.1% compared to 23.5% in the prior year. The increase in cost of operations was impacted by a higher sales volume and the associated variable costs, however leveraging on fixed costs in the rebounding retail channel drove improvements to cost of operations as a percent of total revenue. This increase was further impacted by the reduction in external COVID-19 support recognized in cost of operations, which totaled $10.8 million in the 52-week period ended April 2, 2022, compared to $32.0 million in the prior year. In the current year, the Company realized $1.3 million of benefit from the CEWS (partial benefit attributed to operating costs), which offset labour charges in the retail and online networks. The Company also realized $2.9 million of reductions from rent subsidies from the CERS program, and $6.6 million in reductions to its cost of operations relating to COVID-19 occupancy expense abatement. In the prior year, the Company recognized $15.4 million of benefit from the CEWS program, $1.1 million from the CERS program and $15.5 million from COVID-19 occupancy expense abatement. The Company is still in negotiations with its landlords regarding rent abatement to address the financial impacts of the most recent wave of COVID-19 related store closures.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses increased $20.7 million to $104.3 million for the 52-week period ended April 2, 2022, compared to $83.6 million in the prior year. As a percent of total revenue, selling, general and administrative expenses increased to 9.8% compared to 9.2% in the prior year. This was impacted by increased strategic spending, following a tightening of discretionary spending in the prior year, as the Company looks to build on the ecommerce momentum generated. Further, the Company recognized a reduction in external COVID-19 support recognized in selling, general and administration expenses, which totaled $2.1 million in the 52-week period ended April 2, 2022, compared to $12.0 million in the prior year. In the current year, the Company realized $1.0 million of benefit from the CEWS (partial benefit attributed to selling, general and administrative expenses), which offset head office labour charges, compared to $12.0 million 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 decreased by $8.1 million to $60.6 million for the 52-week period ended April 2, 2022, compared to $68.7 million in the prior year. The decrease was primarily a result of lower amortization in the period, as lease modifications recognized decreased the carrying value of the right-of-use assets.

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, asset disposals, share of loss from equity investment, and impairment, and includes IFRS 16 right-of-use asset depreciation and associated finance charges. Adjusted EBITDA improved by $60.8 million to $32.5 million for the 52-week period ended April 2, 2022, compared to a loss of $28.3 million in the prior year. Adjusted EBITDA, as a percent of total revenue, improved to 3.1% this year, compared to a loss 3.1% in the prior year. Higher adjusted EBITDA was driven by higher sales and omni-channel merchandise margin performance, a result of a strong product assortment and strategic shifts made to the Company's pricing strategies. This was furthered by a one-time payment of $17.0 million, resulting from the renegotiation of the partnership with Starbucks, and a reduction in amortization on the Company's right-of-use assets. The improvement to adjusted EBITDA was achieved against lower external COVID-19 support and elevated freight and last-mile logistics costs associated with a challenged global supply chain.

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

Capital Assets

Depreciation and amortization of capital assets, excluding right-of-use assets, for the 52-week period ended April 2, 2022 decreased $2.1 million to $27.9 million compared to $30.0 million in the prior year. The decrease in depreciation and amortization was a result of a lower capital asset base impacted by historical decisions to defer capital investments in light of uncertainty surrounding COVID-19.

Capital expenditures in fiscal 2022 totaled $15.4 million compared to $13.3 million in the prior year, and were primarily to support the Company's strategic plans for ecommerce growth. Capital expenditures included $12.1 million for digital application software and internal development costs, $1.9 million for furniture, fixtures, equipment and leasehold improvements, net of tenant allowances, and $1.4 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income

Net interest income, excluding finance charges related to leases, remained relatively constant, decreasing $0.1 million to $0.8 million for the 52-week period ended April 2, 2022, compared to $0.9 million in the prior year. The Company nets interest income against interest expense.

Equity Investment

The Company uses the equity method to account for its investment in Unplug, and recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses. The Company recognized a loss of below $0.1 million from Unplug for the 52-week period ended April 2, 2022 compared to a loss of $0.2 million in the prior year.

At each reporting date, the Company assesses whether indicators of impairment exist relating to its equity investment, in accordance with IAS 36 "Impairment of Assets" and IAS 28 "Equity Accounting". As at April 2, 2022, the Company noted a decline in forecasted financial performance that indicated it was probable that future cash flows would not cover the carrying amount of net assets. As such, impairment losses in the current year were taken against the Company's equity investment. Impairment losses for the 52-week period ended April 2, 2022 were $2.0 million, compared to no impairment loss recognized in the prior year.

Income Taxes

The Company recognized no income tax expense for the 52-week period ended April 2, 2022, compared to recognizing a non-cash deferred income tax expense of $1.0 million in the prior year. Income taxes in the prior year were impacted by the movement in cash flow hedges. The Company recognized no income tax expense on net earnings in the current year due to the offsetting deferred income tax recovery from the re-recognition of deferred tax assets.

Since March 28, 2020, the Company has not recognized deferred tax assets, in excess of those used to offset any deferred income tax expense in the period, influenced by prior period operating losses and uncertainty surrounding future profitability introduced by the COVID-19 pandemic, among other factors.

The Company's effective tax rate was 0%, compared to (1.8)% in the prior year.

Net Earnings (Loss)

The Company recognized net earnings of $3.3 million for the 52-week period ended April 2, 2022 ($0.12 net earnings per common share), compared to a net loss of $57.9 million ($2.09 net loss per common share) in the prior year, an improvement of $61.2 million. This was fueled by strong sales and a record omni-channel merchandise margin rate, which was delivered through a successful product strategy and year-over-year recovery of the Company's retail channel. This was furthered by a one-time payment of $17.0 million, resulting from the renegotiation of the partnership with Starbucks, and a reduction in amortization on the Company's right-of-use assets. The growth to net earnings was achieved against lower external COVID-19 support, elevated freight and last-mile logistics costs, and an impairment loss recognized against the Company's equity investment.

Other Comprehensive Income (Loss)

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

During the 52-week period ended April 2, 2022, the Company entered into contracts with total notional amounts of C$155.7 million to buy U.S. dollars and sell Canadian dollars, compared to entering into contracts with total notional amounts of C$69.7 million in the prior year. As at April 2, 2022, the Company had remaining contracts in place representing total notional amounts of C$67.1 million and an unrealized net loss of $0.6 million, compared to total notional amounts of C$34.6 million and an unrealized net loss of $1.6 million as at April 3, 2021.

During the 52-week period ended April 2, 2022, the Company had net losses (net of taxes) from the change in fair value of outstanding cash flow hedges of $0.6 million, compared to net losses (net of taxes) of $4.5 million in the prior year. During the same respective period, the Company reclassified net losses (net of taxes) from settled contracts of $1.6 million from other comprehensive income (loss) to inventory and expenses, and net losses (net of taxes) of $0.1 million in the prior year.

The Company also recognized an other comprehensive gain of below $0.1 million from foreign currency translation adjustments on consolidation of its foreign subsidiaries for the fiscal year ended April 2, 2022, compared to an other comprehensive loss of $0.1 million in the prior year.

These resulted in total other comprehensive income of $1.0 million for the 52-week period ended April 2, 2022, compared to a total other comprehensive loss of $4.5 million in the prior year.

Seasonality and Fourth Quarter Results

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

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

(millions of Canadian dollars, except per share data)	Fiscal quarters Q4 Fiscal 2022	Q3 Fiscal 2022	Q2 Fiscal 2022	Q1 Fiscal 2022	Q4 Fiscal 2021	Q3 Fiscal 2021	Q2 Fiscal 2021	Q1 Fiscal 2021
Revenue	**220.7**	430.7	238.8	172.1	199.0	365.4	205.3	135.1
Net earnings (loss)	**(23.4)**	45.1	3.5	(21.9)	(39.5)	30.7	(17.5)	(31.6)
Basic earnings (loss) per common share	**$(0.84)**	$1.62	$0.13	$(0.79)	$(1.42)	$1.11	$(0.63)	$(1.15)
Diluted earnings (loss) per common share	**$(0.83)**	$1.60	$0.13	$(0.79)	$(1.42)	$1.09	$(0.63)	$(1.15)

For the 13-week period ended April 2, 2022, total consolidated revenue increased by $21.7 million or 10.9% to $220.7 million compared to $199.0 million for the 14-week period ended April 3, 2021. This increase was driven by the partial rebound of the retail channel compared to the prior year which was partially impacted by retail closures.

The Company recognized a net loss of $23.4 million for the 13-week period ended April 2, 2022 ($0.84 basic net loss per common share), compared to a net loss of $39.5 million ($1.42 basic net loss per common share) in the prior year. The Company recognized its highest fourth quarter retail and online merchandise margin rates since fiscal 2018, despite the impact of increased freight costs in the current year. Further contributing to the improved results were reductions in both cost of operations and selling, general and administrative expenses, despite lower COVID-19 support received in the current year.

Overview of Consolidated Balance Sheets

Assets

As at April 2, 2022, total assets increased $9.9 million to $809.4 million, compared to $799.5 million as at April 3, 2021. This was primarily driven by an increase in inventories, partially offset by decreases in capital assets and accounts receivable. Inventories increased by $58.7 million which was driven by measured inventory purchasing in the prior year, in response to uncertainty surrounding spending patterns and in anticipation of government mandated lockdowns. This was furthered by an expanded general merchandise assortment as the Company aims to continue driving meaningful growth to its general merchandise business. Net capital assets decreased by $40.7 million, as depreciation outpaced capital investments, a result of a more conservative capital asset investment program since the onset of the COVID-19 pandemic. This was furthered by lease modifications recognized that decreased the carrying value of the right-of-use assets. Accounts receivable decreased by $10.0 million, primarily driven by outstanding amounts receivable from COVID-19 support programs that were not yet collected in the prior year.

Liabilities

As at April 2, 2022, total liabilities increased $4.6 million to $781.5 million, compared to $776.9 million as at April 3, 2021. This was primarily driven by increases in net accounts payable, unredeemed gift card liabilities and deferred revenue, partially offset by a net decrease in lease liabilities. Net accounts payable and accrued liabilities increased $31.9 million, driven primarily by the increase in inventory purchasing in the fourth quarter of fiscal 2022 compared to the prior year. This was furthered by an increase of $4.6 million in unredeemed gift card liabilities, as activations lifted over the past year on the recovery of the Company's retail network, and an increase of $4.2 million of deferred revenue driven by *plum*® PLUS membership sign ups. These increases were partially offset by the net decrease in lease liabilities of $33.1 million which reflects the impact of principal and interest repayments over the past year, and lease modifications recognized.

Equity

Total equity at April 2, 2022 increased $5.2 million to $27.8 million, compared to $22.6 million as at April 3, 2021, driven primarily by the net earnings of $3.3 million recognized over the past four quarters. This was furthered by an increase of $1.0 million in accumulated other comprehensive income, primarily due to the change in fair value of outstanding cash flow hedges.

The weighted average number of common shares outstanding for fiscal 2022 was 27,771,387 compared to 27,664,268 in the prior year. As at June 2, 2022, the number of outstanding common shares was 27,349,711 with a book value of $227.1 million.

Working Capital and Leverage

The Company reported working capital of $58.3 million as at April 2, 2022, compared to $46.1 million as at April 3, 2021. The increase in working capital compared to the prior year was driven by the discussed increase in inventories, partially offset by a decrease in accounts receivables and increases in net accounts payable, unredeemed gift card liabilities and deferred revenue.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $1.5 million for the 52-week period ended April 2, 2022 compared to a decrease of $35.5 million in the prior year. The increase in cash flows in the period was driven by cash flows generated from operating activities of $81.3 million, partially offset by cash flows used in financing activities and investing activities of $66.1 million and $13.5 million, respectively.

Cash Flows From Operating Activities

The Company generated cash flows of $81.3 million from operating activities in the 52-week period ended April 2, 2022 compared to generating cash flows of $37.7 million in the prior year, a change of $43.6 million. This was primarily a result of the $60.8 million increase in adjusted EBITDA recognized in the current year. This improvement was partially offset by a decrease in cash generated from working capital of $12.5 million, which was mostly driven by the discussed increase in inventories, partially offset by the associated increase in accounts payable, and by a decrease in accounts receivable relating to amounts outstanding in the prior year from COVID-19 support programs.

Cash Flows Used for Investing Activities

The Company used cash flows of $13.5 million for investing activities in the 52-week period ended April 2, 2022 compared to using $12.4 million of cash flows in the prior year, a change of $1.1 million. Since the onset of the COVID-19 pandemic, the Company decided to execute a smaller capital investment program, which has continued throughout fiscal 2022. Investment has been focused on its digital ecosystem as the Company embarked on a transformation strategy in fiscal 2022 to fully re-design a connected shopping experience and modernize its ecommerce technology.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Furniture, fixtures, equipment, and leasehold improvements, net	1.9	1.8
Intangible assets (digital application software and internal development costs)	12.1	9.2
Technology equipment	1.4	2.3
Total	15.4	13.3

Cash Flows Used for Financing Activities

The Company used cash flows of $66.1 million for financing activities in the 52-week period ended April 2, 2022 compared to using cash flows of $62.2 million in the prior year, a change of $3.9 million. This was driven by higher repayments on the Company's IFRS 16 lease obligations, a direct impact of rent concessions recognized in the prior year.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the holiday season. The Company has minimal accounts receivables and the majority of book products are purchased on trade terms with the right to return to suppliers at full credit. The Company's main sources of capital are cash flows generated from operations and cash and cash equivalents. Cash flows from operating activities could continue to be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, by the impact of social distancing policies and general public health sentiment on retail store traffic, and the Company's ability to safely fulfill orders through its online distribution network.

The contractual maturities of the Company's current and long-term liabilities as at April 2, 2022 are as follows:

(millions of Canadian dollars)	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Total obligations	247.7	120.7	90.6	238.6	697.6

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 2023. However, the Company's ability to fund future operations will depend on its operating performance, which could be affected by risks associated with the COVID-19 pandemic, as discussed.

During the year, the Company entered into a $25 million related party revolving line of credit to enhance its liquidity in response to uncertainty surrounding the pandemic's financial impacts. As at April 2, 2022, this facility had expired without any amounts withdrawn by the Company. Subsequent to April 2, 2022, 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 the Company to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. The Company also evaluates its judgments and estimates on an ongoing basis. Methods for determining all material judgments and estimates are consistent with those used in prior periods, except as noted. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates. The critical accounting judgments and estimates and significant accounting policies of the Company are described in notes 3 and 4 of the consolidated financial statements.

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

Use of judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

The recognition of deferred tax assets is based on the Company's judgment. The assessment of the probability of future taxable income against which deferred tax assets can be utilized is based on management's best estimate of future taxable income that the Company expects to achieve from reviewing its latest forecast. This estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the 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.

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.

Accounting Standards Implemented in Fiscal 2022

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

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

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision

At its June 2021 meeting, the IFRS Interpretations Committee finalized an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realizable value of inventories. The Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgement. The Company assessed the impact of this agenda decision, and it does not have a material impact to its results of operations, financial position or disclosures.

New Accounting Pronouncements

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

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

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

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

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

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 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. The inflationary pressures present in the Canadian economy as at April 2, 2022 and anticipated to continue in fiscal 2023 could curtail consumer spending. A decline in consumer spending, especially during the third quarter 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, geopolitical events or acts of terrorism, or higher interest rates, inflation, or unemployment rates, could also unfavourably impact the Company's financial performance.

Competition

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

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

The general merchandise retail landscape also features significant competition from established retailers and 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 lifestyle and specialty toy products through both physical and digital platforms. New competitors frequently enter the market and existing competitors may increase market presence, expand merchandise offerings, add new sales channels, or change their pricing methods, all of which increase competition for customers.

Many of the Company's current and potentially future competitors are global, 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.

Culture

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

Key Business Relationships

Indigo relies heavily on 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, availability of raw materials, inflation, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, geopolitical risks, 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 ecommerce 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 Wellness, Health and Safety

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

As the Company navigates the COVID-19 pandemic, Indigo continues to prioritize the health and safety of the Company's customers, employees, and communities in the face of evolving workplace risks and practices. This includes the unprecedented stress caused by the social isolation resulting from the pandemic, constraints on people's ability to work, and the adverse impact this has on mental health. The Company has put in place, evolved and employed extensive health and safety measures across all of its operations based on the guidance and direction from public health authorities and increased the coverage available through its wellness programs. If the Company is unable to meet 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 significantly exposed to and infected by the COVID-19 virus, it could have an adverse effect on the Company's ability to operate its stores, distribution centres, or reopen its head office, all of which could have an adverse effect on the Company's operations, corporate reputation and financial performance.

Remote Work

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

Talent

The Company's continued success will depend to a significant extent upon securing and retaining sufficient talent in management 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 and if a significant number of employees were to become unionized, the resulting collective agreements could have adverse consequences for the operational or financial conditions at the impacted location(s). Additionally, the maintenance of a productive, engaged and efficient labour environment cannot be assured and a failure to maintain such an environment, or a failure to successfully negotiate collective agreements, could lead to labour disputes, disruptions or work stoppages involving some or all of the Company's employees which could adversely affect Indigo's reputation, disrupt its operations, reduce its revenues and/or increase its costs related to resolving such a dispute.

Inventory Management

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

Ethical Sourcing

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

Supply Chain

The Company is dependent on three distribution facilities, including two co-located at the same leased facility in Brampton, Ontario, to fulfill inventory requirements for its retail network, and the majority of online channel sales. If one or more of the Company's distribution facilities becomes inoperable, capacity is exceeded or if operations are disrupted, Indigo's business, financial condition and operating results could be negatively affected. The Company depends on the orderly operation of the receiving and distribution 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.

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

In addition, as described above in the "Key Supplier Relationships" risk factor, carrier interruptions and delays as a result of the COVID-19 pandemic could impact the Company's ability to deliver orders to customers in a timely manner, adversely impacting customer retention and future financial performance.

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 cashflows 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 event, the effectiveness and timing of which 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 2023. 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. The COVID-19 pandemic continues to introduce 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 receivable, cash and cash equivalents, 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 receivable primarily consists of receivables from financial institutions for the Company's sales by credit card tender, recoveries of credits from suppliers for returned or damaged products, tenant allowances receivable from landlords for renovations and lease inducements and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

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

Foreign Exchange Risk

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

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents. The Company does not currently have any debt and all interest expense recognized in fiscal 2022 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.

Commodity Price Risk

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

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

As the Company invests in strengthening its information technology and digital infrastructure it is increasingly exposed to global supply shortages for semiconductors. Semiconductors are an essential component of electronic devices and they are made of pure elements. Supply and production capacity has been adversely impacted by the COVID-19 variants experienced in fiscal 2022 and the geopolitical unrest stemming from Russia, the world's largest producer of palladium and high-grade nickel, potentially further escalating supply chain disruptions.

Real Estate

The Company leases all of its retail locations 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 continues to negotiate 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. 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, including point-of-sale processing at stores, the operation of its ecommerce channel, maintain its competitive position in the marketplace and enable its growth strategy. The increased adoption of ecommerce has heightened the potential impact of various risk events including website downtime and other technical failures that could adversely impact revenues and affect the Company's ability to grow its digital channels.

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

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

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

Cybersecurity

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

Cyber threats continuously increase in sophistication, and may become more difficult to anticipate, and detect on a timely basis. A lapse in cybersecurity, or successful cyber attack, may defeat the Company's security measures or those of its cloud-based service providers or third-party vendors. This includes the risk that the Company's website and digital platforms may be subject to distributed denial of service (DDoS) attacks in the future, a technique used by hackers to take an Internet service offline by overloading its servers.

Techniques used to obtain unauthorized access change frequently, ranging from distributed denial of service (DDoS) to social engineering. Ransomware attacks are increasing exponentially while phishing attempts remain a constant industry threat. Since techniques used to obtain unauthorized access change frequently, the Company may be unable to implement adequate preventative measures or stop the attacks while they are occurring. A data loss or security breach stemming from one of these attacks could delay or interrupt service to the Company's customers. In addition, any actual or perceived cyber attack or security breach could damage the Company's reputation and brand, expose the Company to a risk of litigation and possible liability and require the Company to expend significant capital and other resources. These collective risks have been heightened 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 defence of any such claims or litigation could result in substantial expense and diversion of resources. There is no guarantee that the Company will be able to resolve such claims and disputes to its satisfaction, and if the Company is unable to successfully defend itself against these claims, it could adversely affect the Company's reputation, operations and financial condition and performance. Please see the "Legal Proceedings" Risk Factor below.

Legal Proceedings

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 2, 2022 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 to 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 obtaining appropriate consent, limitations on use, retention, and disclosure of personal information, and ensuring appropriate security safeguards are in place. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individual customers and employees. Although the Company has implemented systems and processes to comply with applicable privacy laws in connection with the collection, use, retention, and disclosure of such personal information, if a significant failure of such systems was to occur, the Company's business and reputation could be adversely affected. Furthermore, the imposition of additional regulations or the enactment of any new or more stringent privacy legislation may cause the Company to incur significant costs in the course of complying with any such changes.

Climate Change and the Environment

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

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

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

Disclosure Controls and Procedures

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at April 2, 2022.

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 2, 2022.

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 2, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

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

Cautionary Statement Regarding Forward-Looking Statements

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

Non-IFRS Financial Measures

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

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

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

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

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 2, 2022 and April 3, 2021, and the consolidated statements of earnings (loss) and comprehensive earnings (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 2, 2022 and April 3, 2021, 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 2, 2022, the Company has $64M of property, plant, and equipment, $21M of intangible assets and $334M of right-of-use assets, as disclosed in notes 9, 11 and 10, respectively, of the consolidated financial statements. As disclosed in note 4, these long-lived assets are assessed for impairment at the store level cash-generating unit ("CGU"), except for corporate assets which cannot be allocated on a reasonable and consistent basis to individual CGUs which are assessed for impairment at the corporate level. Any time an indicator of impairment exists, management assesses whether there has been an impairment loss in the carrying value of these long-lived assets. When performing impairment tests, the Company estimates the recoverable amount of the CGUs or group of CGUs using a discounted cash flow model.

Auditing management's long-lived asset impairment tests was complex, given the degree of judgement and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the CGUs or group of CGUs. Significant assumptions included expected sales growth rates, earnings margins and discount rate, which are affected by expectations about future consumer 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 2, 2022

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at April 2, 2022	As at April 3, 2021
ASSETS		
Current		
Cash and cash equivalents (note 6)	**86,469**	84,935
Accounts receivable	**12,941**	22,976
Inventories (note 7)	**273,849**	215,114
Prepaid expenses	**13,508**	12,278
Other assets	**3,246**	2,120
Total current assets	**390,013**	337,423
Property, plant, and equipment, net (note 9)	**64,319**	77,131
Right-of-use assets, net (note 10)	**333,767**	361,864
Intangible assets, net (note 11)	**21,171**	20,916
Equity investment, net (note 12)	**97**	2,156
Total assets	**809,367**	799,490
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 22)	**178,138**	145,193
Unredeemed gift card liability	**62,653**	58,053
Provisions (notes 14 and 22)	**472**	2,365
Deferred revenue	**20,699**	16,486
Short-term lease liabilities (notes 10 and 22)	**69,100**	67,603
Derivative liabilities (note 8)	**631**	1,622
Total current liabilities	**331,693**	291,322
Long-term accrued liabilities (note 22)	**1,068**	2,090
Long-term provisions (notes 14 and 22)	**702**	827
Long-term lease liabilities (notes 10 and 22)	**448,084**	482,671
Total liabilities	**781,547**	776,910
Equity		
Share capital (note 16)	**227,090**	226,986
Contributed surplus (note 17)	**14,618**	13,782
Retained deficit	**(213,403)**	(216,668)
Accumulated other comprehensive loss (note 8)	**(485)**	(1,520)
Total equity	**27,820**	22,580
Total liabilities and equity	**809,367**	799,490

See accompanying notes

On behalf of the Board:

Heather Reisman
Director

Anne Marie O'Donovan
Director

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

(thousands of Canadian dollars, except per share data)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Revenue (note 18)	**1,062,250**	904,738
Cost of sales	**(619,212)**	(567,902)
Gross profit	**443,038**	336,836
Operating, selling, and other expenses (notes 9, 10, 11 and 18)	**(414,020)**	(368,705)
Operating profit (loss)	**29,018**	(31,869)
Net interest expense (note 10)	**(23,694)**	(24,784)
Share of loss from equity investment (note 12)	**(32)**	(197)
Impairment loss from equity investment (note 12)	**(2,027)**	–
Earnings (loss) before income taxes	**3,265**	(56,850)
Income tax expense (note 13)	**–**	(1,017)
Net earnings (loss)	**3,265**	(57,867)
Other comprehensive income (loss) (notes 8 and 10)		
Items that are or may be reclassified subsequently to net earnings (loss), net of taxes:		
Change in fair value of cash flow hedges	**(639)**	(4,507)
Reclassification of realized loss	**1,630**	108
Foreign currency translation adjustment	**44**	(119)
Other comprehensive income (loss)	**1,035**	(4,518)
Total comprehensive earnings (loss)	**4,300**	(62,385)
Net earnings (loss) per common share (note 19)		
Basic	**$0.12**	$(2.09)
Diluted	**$0.12**	$(2.09)

See accompanying notes

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, March 28, 2020	226,986	12,822	(158,801)	2,998	84,005
Net loss for the period	–	–	(57,867)	–	(57,867)
Share-based compensation (note 17)	–	666	–	–	666
Directors' compensation (note 17)	–	294	–	–	294
Cash flow hedges (note 8)	–	–	–	(4,399)	(4,399)
Foreign currency translation adjustment (note 10)	–	–	–	(119)	(119)
Balance, April 3, 2021	226,986	13,782	(216,668)	(1,520)	22,580
Balance, April 3, 2021	**226,986**	**13,782**	**(216,668)**	**(1,520)**	**22,580**
Net earnings for the period	**–**	**–**	**3,265**	**–**	**3,265**
Exercise of options (notes 16 and 17)	**104**	**(28)**	**–**	**–**	**76**
Share-based compensation (note 17)	**–**	**864**	**–**	**–**	**864**
Cash flow hedges (note 8)	**–**	**–**	**–**	**991**	**991**
Foreign currency translation adjustment (note 10)	**–**	**–**	**–**	**44**	**44**
Balance, April 2, 2022	**227,090**	**14,618**	**(213,403)**	**(485)**	**27,820**

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
OPERATING ACTIVITIES		
Net earnings (loss)	**3,265**	(57,867)
Adjustments to reconcile net earnings (loss) to cash flows from operating activities		
Depreciation of property, plant, and equipment (note 9)	**16,006**	17,158
Depreciation of right-of-use assets (note 10)	**36,144**	42,990
Amortization of intangible assets (note 11)	**11,886**	12,885
Loss on disposal of capital assets (notes 9 and 11)	**29**	399
Share-based compensation (note 17)	**864**	666
Directors' compensation recognized in contributed surplus (note 17)	**–**	294
Deferred income tax expense (note 13)	**–**	1,017
Rent concessions (note 10)	**–**	(4,141)
Share of loss from equity investment (note 12)	**32**	197
Impairment loss from equity investment (note 12)	**2,027**	–
Other	**(328)**	(784)
Net change in non-cash working capital balances related to operations (note 20)	**(12,338)**	150
Interest expense (note 10)	**24,514**	25,706
Interest income	**(820)**	(922)
Cash flows from operating activities	**81,281**	37,748
INVESTING ACTIVITIES		
Net purchases of property, plant, and equipment (note 9)	**(3,248)**	(4,093)
Addition of intangible assets (note 11)	**(12,143)**	(9,245)
Proceeds from disposal of equity investment (note 23)	**1,032**	–
Interest received	**820**	922
Cash flows used for investing activities	**(13,539)**	(12,416)
FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 10)	**(41,641)**	(36,535)
Interest paid (note 10)	**(24,514)**	(25,706)
Proceeds from share issuances (notes 16 and 17)	**76**	–
Cash flows used for financing activities	**(66,079)**	(62,241)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(129)**	1,371
Net increase (decrease) in cash and cash equivalents during the period	**1,534**	(35,538)
Cash and cash equivalents, beginning of period	**84,935**	120,473
Cash and cash equivalents, end of period	**86,469**	84,935

See accompanying notes

Notes to Consolidated Financial Statements

April 2, 2022

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 (2021 – 88) under the *Indigo* and *Chapters* names, as well as 85 small format stores (2021 – 89) under the banners *Coles* and *Indigospirit*. Retail operations are seamlessly integrated with the Company's digital channels, including the *www.indigo.ca* website and the mobile applications, which are extensions of the physical stores and offer customers an expanded assortment of book titles, along with a meaningfully curated assortment of general merchandise. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

The Company 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 2, 2022.

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 2, 2022 contained 52 weeks, while the year ended April 3, 2021 contained 53 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 2022, most notably by numerous temporary mandated store closures in its first quarter, and the adverse impact of mandated pandemic restrictions to retail traffic in the Company's store network during critical holiday selling weeks in the month of December.

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

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

Use of Judgments

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

Impairment

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

Intangible assets

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

Leases

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

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

Deferred tax assets

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

Use of Estimates

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

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, Indigo's investment is initially recognized at cost and subsequently increased or decreased to recognize Indigo's share of earnings and losses of the investment, distributions received and for impairment losses after the initial recognition date. Indigo's share of losses that are in excess of its investment is recognized only to the extent that Indigo has incurred legal or constructive obligations or made payments on behalf of the company. Indigo'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 Indigo'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.

Inventories

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

Prepaid Expenses

Prepaid expenses include store supplies, software subscription fees, rent 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 earnings (loss) and comprehensive earnings (loss).

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

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

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

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

Property, Plant, and Equipment

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

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

The following useful lives are applied:

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

Items of property, plant, and equipment are assessed for impairment as detailed in the accounting policy note on impairment and are derecognized either upon disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition is included in earnings 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 2, 2022, the Company had no such contracts.

Impairment Testing

Capital assets

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

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

Equity Investments

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

Financial assets

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

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

Provisions

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

Total Equity

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 earnings (loss) and comprehensive earnings (loss). Changes in estimated breakage is 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*® PLUS membership is sold, the amount is recognized in deferred revenue and amortized into revenue over the life of the membership, based on historical usage patterns.

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

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

Interest income

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

Vendor Rebates

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

Earnings (Loss) per Share

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

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. 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 2, 2022 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 earnings (loss) as the recognized item. However, when the hedged forecast transaction results in the recognition of a non-financial asset, the gains and losses previously recognized in other comprehensive income (loss) are transferred from equity and included in the initial measurement of the cost of the non-financial asset. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated 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 earnings (loss).

Retirement Benefits

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

Accounting Standards Implemented in Fiscal 2022

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

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

Costs Necessary to Sell Inventories (IAS 2) Agenda Decision

At its June 2021 meeting, the IFRS Interpretations Committee finalized an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realizable value of inventories. The Committee concluded that when determining the net realizable value of inventories, an entity estimates the costs necessary to make the sale in the ordinary course of business, which requires the exercise of judgement. The Company assessed the impact of this agenda decision, and it does not have a material impact to its results of operations, financial position or disclosures.

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.

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

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

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

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	As at April 2, 2022	As at April 3, 2021
Cash	83,596	84,516
Restricted cash	2,845	391
Cash equivalents	28	28
Cash and cash equivalents	86,469	84,935

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

7. INVENTORIES

The cost of inventories recognized as an expense during the 52-week period ended April 2, 2022 was $592.9 million (2021 – $530.1 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 52-week period ended April 2, 2022 was $9.1 million (2021 – $9.2 million). The amount of inventory with net realizable value equal to cost was $2.8 million as at April 2, 2022 (April 3, 2021 – $5.4 million).

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

During the fiscal year ended April 2, 2022, the Company entered into contracts with total notional amounts of C$155.7 million to purchase U.S. dollar/Canadian dollar currency pair forwards (2021 – C$69.7 million). As at April 2, 2022, the Company had remaining contracts in place representing total notional amounts of C$67.1 million (April 3, 2021 – C$34.6 million) at an average forward rate of 1.26 (2021 – 1.32). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at April 2, 2022 resulted in the recognition of no derivative asset (April 3, 2021 – no derivative asset) and a derivative liability of $0.6 million (April 3, 2021 – $1.6 million).

During the fiscal year ended April 2, 2022, the Company had losses of $0.6 million (net of no taxes) from the change in fair value of outstanding cash flow hedges (2021 – net loss of $4.5 million, net of taxes of $1.0 million). During the same period, the Company reclassified losses from settled contracts out of other comprehensive income (loss) to inventory and expenses of $1.6 million (net of no taxes) (2021 – net losses of $0.1 million, net of taxes of below $0.1 million). This resulted in other comprehensive income of $1.0 million for the 52-week period ended April 2, 2022 (2021 – other comprehensive income of $4.4 million).

During the 13-week period ended September 26, 2020, the Company terminated derivative instruments with one of its counterparties based on the counterparty's heightened credit risk during the COVID-19 pandemic; consequently, hedge accounting was discontinued and a gain of $0.3 million as at that date was deferred in other comprehensive income. This gain was recognized in earnings concurrently with the related hedge transactions in future periods of that fiscal year. During the 52-week period ended April 2, 2022 there were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted.

Potential causes of mismatch between the hedging instrument and hedged item which would generate ineffectiveness include changes in credit risk, a timing mismatch between the maturity of the instrument and the future transaction date, and/or the hedged transaction does not occur. Reclassified amounts resulting from hedge ineffectiveness and realized foreign exchange amounts as a result of derivative financial instruments were both immaterial for the 52-week period ended April 2, 2022 (2021 – $0.3 million and $0.3 million, respectively).

9. PROPERTY, PLANT, AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Total
Gross carrying amount				
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
Additions, net	**764**	**1,361**	**1,123**	**3,248**
Disposals	**(45)**	**(19)**	**(32)**	**(96)**
Assets with zero net book value	**(3,990)**	**(1,259)**	**(1,147)**	**(6,396)**
Foreign currency adjustment	**(9)**	**–**	**(18)**	**(27)**
Balance, April 2, 2022	**84,898**	**15,729**	**53,598**	**154,225**
Accumulated depreciation				
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
Depreciation	**7,949**	**2,939**	**5,118**	**16,006**
Disposals	**(28)**	**(13)**	**(28)**	**(69)**
Assets with zero net book value	**(3,990)**	**(1,259)**	**(1,147)**	**(6,396)**
Balance, April 2, 2022	**48,133**	**10,296**	**31,477**	**89,906**
Net carrying amount				
April 3, 2021	43,976	7,017	26,138	77,131
April 2, 2022	**36,765**	**5,433**	**22,121**	**64,319**

10. LEASE BALANCES

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

(thousands of Canadian dollars)	
Gross carrying amount	
Balance, March 28, 2020	463,134
Additions	25,765
Foreign currency adjustment	(3,057)
Balance, April 3, 2021	**485,842**
Additions	**8,134**
Foreign currency adjustment	**(87)**
Balance, April 2, 2022	**493,889**
Accumulated depreciation	
Balance, March 28, 2020	80,988
Depreciation	42,990
Balance, April 3, 2021	**123,978**
Depreciation	**36,144**
Balance, April 2, 2022	**160,122**
Net carrying amount	
April 3, 2021	361,864
April 2, 2022	**333,767**

The following table reconciles the change in lease liabilities:

(thousands of Canadian dollars)	**52-week period ended April 2, 2022**	53-week period ended April 3, 2021
Balance, beginning of period	**550,274**	568,617
Lease renewals included in the scope of IFRS 16	**8,672**	25,899
Accretion of lease liabilities	**24,514**	25,706
Repayment of interest and principal on lease liabilities	**(66,155)**	(62,241)
Rent concessions	**–**	(4,141)
Foreign currency adjustment	**(121)**	(3,566)
Balance, end of period	**517,184**	550,274

For the 52-week period ended April 2, 2022, no contracts met the criteria for recognition under the IFRS 16 practical expedient for COVID-19 rent concessions (2021 – $4.1 million).

During the year ended April 2, 2022, the Company expensed $0.5 million (April 3, 2021 – $1.8 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 $3.5 million for the 52-week period ended April 2, 2022 (April 3, 2021 – $4.5 million). All of the Company's subleases are classified as operating leases and are net against occupancy expenses.

As at April 2, 2022, 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
2023	68,409
2024	65,810
2025	59,173
2026	48,431
2027	42,724
Thereafter	89,560
Total obligations	374,107

11. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Retail lease	Total
Gross carrying amount					
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**
Additions	**6,680**	**5,463**	**–**	**–**	**12,143**
Disposals	**(5)**	**–**	**–**	**–**	**(5)**
Assets with zero net book value	**(11,882)**	**(8,009)**	**–**	**–**	**(19,891)**
Balance, April 2, 2022	**20,763**	**14,991**	**3,387**	**1,207**	**40,348**
Accumulated amortization					
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**
Amortization	**6,843**	**5,043**	**–**	**–**	**11,886**
Disposals	**(3)**	**–**	**–**	**–**	**(3)**
Assets with zero net book value	**(11,882)**	**(8,009)**	**–**	**–**	**(19,891)**
Balance, April 2, 2022	**10,724**	**6,987**	**259**	**1,207**	**19,177**
Net carrying amount					
April 3, 2021	10,204	7,584	3,128	–	20,916
April 2, 2022	**10,039**	**8,004**	**3,128**	**–**	**21,171**

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

12. EQUITY INVESTMENT

The Company 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 28, 2020	2,353
Share of loss from Unplug	(197)
Balance, April 3, 2021	**2,156**
Share of loss from Unplug	**(32)**
Impairment of investment	**(2,027)**
Balance, April 2, 2022	**97**

At each reporting date, the Company assesses whether indicators of impairment exist relating to its equity investment, in accordance with IAS 36 *Impairment of Assets* and IAS 28 *Equity Accounting*. As at April 2, 2022, the Company identified indicators of impairment and accordingly the Company performed impairment testing. Management's fair value estimate used to determine the recoverable amount was based on an asset-based approach. Impairment losses for the 52-week period ended April 2, 2022 of $2.0 million were taken against the Company's equity investment, compared to no impairment loss recognized in the prior year.

13. INCOME TAXES

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

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

(thousands of Canadian dollars)	**As at April 2, 2022**	As at April 3, 2021
Reserves and allowances	**3,908**	3,216
Non-capital loss carryforwards	**18,205**	25,425
Capital loss carryforwards	**319**	319
Corporate minimum tax credit	**3,379**	3,379
Book amortization in excess of capital cost allowance	**50,823**	43,858
Lease liabilities	**136,070**	141,445
Cash flow hedges	**167**	434
Total deferred tax assets	**212,871**	218,076
Right-of-use assets	**(87,808)**	(92,001)
Total deferred tax liabilities	**(87,808)**	(92,001)
Net deferred tax assets	**125,063**	126,075
Value of deferred tax assets not recognized in the current period	**(125,063)**	(126,075)
Recognized net deferred tax assets	**–**	–

As at April 2, 2022, all net deferred tax assets have not been recognized (April 3, 2021 – all net deferred tax assets not recognized). This decision was influenced by the operating losses recognized in prior periods 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 2, 2022, the Company had Canadian non-capital tax loss carryforwards of $34.7 million that expire in 2031, $8.3 million that expire in 2039, $1.2 million that expire in 2040, and $14.4 million that expire in 2041, as well as capital losses of $2.4 million. The Company also had $10.1 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 2042.

Significant components of income tax expense are as follows:

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Current income tax expense	–	–
Deferred income tax expense		
Origination and reversal of temporary differences	(6,262)	(10,194)
Deferred income tax expense (recovery) relating to change in non-capital loss carryforwards	7,220	(5,158)
Adjustment resulting from a change in substantively enacted tax rates and expected pattern of reversal	(283)	122
Adjustment in deferred tax assets not recognized	(708)	16,343
Other, net	33	(96)
Total income tax expense	–	1,017

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

(thousands of Canadian dollars)	52-week period ended April 2, 2022	%	53-week period ended April 3, 2021	%
Earnings (loss) before income taxes	3,265		(56,850)	
Tax at combined federal, provincial and state tax rates	852	26.1 %	(15,063)	26.5 %
Tax effect of expenses not deductible for income tax purposes	273	8.3 %	374	(0.7)%
Adjustment to deferred tax assets resulting from changes in substantively enacted tax rates and expected pattern of reversal	(283)	(8.7)%	122	(0.2)%
Adjustment in deferred tax assets not recognized	(708)	(21.7)%	16,343	(28.7)%
Adjustment with respect to prior periods	72	2.2 %	(824)	1.4 %
Other, net	(206)	(6.3)%	65	(0.1)%
	–	–	1,017	(1.8)%

14. PROVISIONS

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

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

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Balance, beginning of period	3,192	2,503
Arising during the year	–	689
Utilized/released	(2,018)	–
Balance, end of period	**1,174**	3,192

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

15. CONTINGENCIES

Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 2, 2022 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position or financial performance, except for those amounts that have been recorded as provisions on the Company's consolidated balance sheets.

16. SHARE CAPITAL

Share capital consists of the following:

	52-week period ended April 2, 2022		53-week period ended April 3, 2021	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	27,273,961	226,986	27,273,961	226,986
Issued during the period				
Options exercised	75,750	104	–	–
Balance, end of period	**27,349,711**	**227,090**	27,273,961	226,986

17. SHARE-BASED COMPENSATION

The Company has established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan as at April 2, 2022 is 3,602,457 (April 3, 2021 – 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- or three-year period, while all other outstanding options vest over the above referenced three-year period. The vesting schedule was changed in fiscal 2020 to reward and retain plan participants. Each option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During fiscal 2022, the pre-forfeiture value of options granted was $1.7 million (2021 – $0.8 million). The weighted average fair value of options issued in fiscal 2022 was $1.85 per option (2021 – $1.30 per option).

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

	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Black-Scholes option pricing assumptions		
Risk-free interest rate	0.5%	0.3%
Expected volatility	77.3%	64.6%
Expected time until exercise	2.5 years	2.6 years
Expected dividend yield	–	–
Other assumptions		
Forfeiture rate	25.1%	25.7%

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

	52-week period ended April 2, 2022		53-week period ended April 3, 2021	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	2,375,475	7.90	2,218,488	12.21
Granted	920,000	4.05	1,077,500	1.74
Forfeited	(85,725)	4.74	(815,975)	10.10
Expired	(227,450)	17.23	(104,538)	10.99
Exercised	(75,750)	1.00	–	–
Outstanding options, end of period	2,906,550	6.38	2,375,475	7.90
Options exercisable, end of period	1,664,700	8.84	1,157,825	13.43

A summary of options outstanding and exercisable is presented below:

	As at April 2, 2022				
	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	**630,500**	**1.00**	**3.2**	**311,750**	**1.00**
1.57 – 4.14	**537,500**	**3.89**	**4.2**	**12,500**	**2.11**
4.15 – 5.47	**435,000**	**4.32**	**4.2**	**76,500**	**4.34**
5.48 – 10.99	**714,250**	**6.75**	**2.3**	**674,650**	**6.72**
11.00 – 18.40	**589,300**	**16.13**	**0.8**	**589,300**	**16.13**
1.00 – 18.40	**2,906,550**	**6.38**	**2.9**	**1,664,700**	**8.84**

Directors' Compensation

The Company had a Directors' Deferred Stock Unit Plan ("legacy DSU Plan") for Directors' annual retainer fees and other Board-related compensation up to the end of fiscal 2021. Pursuant to the legacy DSU Plan, participating Directors annually elected whether to receive these fees in the form of equity-settled deferred stock units ("legacy DSUs"), or to receive up to 50% of this compensation in cash. The Company ceased issuing DSUs under this plan in fiscal 2022; however, legacy DSUs issued and outstanding under this plan have not been modified and the number of shares reserved for issuance under this plan continues to be 500,000. Upon the resignation of a participating director, each legacy DSU granted to such Director will be convertible into one common share of the Company. The fair value of legacy DSUs is equal to the traded price of the Company's common shares on the grant date, and recorded in contributed surplus until conversion. The grant date fair value of the outstanding legacy DSUs recorded in contributed surplus as at April 2, 2022 is $3.2 million (April 3, 2021 – $3.2 million).

The Company established a new Deferred Share Unit Plan for Cash Redemption ("New DSU Plan") on June 1, 2021, to grant cash-settled share-based instruments ("cash-settled DSUs") for participating Directors' annual retainer fees and other Board-related compensation for fiscal 2022 onwards. When exercised, participants will receive a payment in cash equal to the fair market value of the common shares represented by the cash-settled DSUs on the date of redemption. The New DSU Plan continues to allow participating Directors to annually elect to receive up to 50% of their compensation in cash. Cash-settled DSUs represent a liability, which is recorded in current liabilities on the Consolidated Balance Sheets at an IFRS 2 fair value, determined using an option pricing model to reflect the traded price of the Company's common shares as at each reporting date. All changes to the fair value of the cash-settled DSUs is recorded in the Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss).

All Directors' compensation during the 52-week period ended April 2, 2022 was issued in the form of cash-settled DSUs, with the exception of cash awards of less than $0.1 million (2021 – all legacy DSUs with the exception of cash awards of less than $0.1 million).

The Company issued 73,043 cash-settled DSUs with a value of $0.3 million during the year (2021 – 164,979 legacy DSUs with a value of $0.3 million). The number of cash-settled DSUs to be issued to each Director is based on a set fee schedule. The fair value of outstanding cash-settled DSUs recorded in current liabilities as at April 2, 2022 is $0.1 million (April 3, 2021 – not applicable). During the year ended April 2, 2022, the Company did not record any material changes to the fair value of cash-settled DSU obligations (April 3, 2021 – not applicable).

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

	52-week period ended April 2, 2022
Black-Scholes option pricing assumptions	
Risk-free interest rate	**2.4%**
Expected volatility	**74.2%**
Expected time until exercise	**3.0 years**
Expected dividend yield	**–**

18. SUPPLEMENTARY OPERATING INFORMATION

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

This includes a one-time payment of $17.0 million from Starbucks Coffee Canada, Inc ("Starbucks"), received during the year ended April 2, 2022, on the renegotiation of its partnership with the Company.

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Print [1]	**569,542**	527,985
General merchandise [2]	**440,748**	354,364
Other [3]	**51,960**	22,389
Total	**1,062,250**	904,738

1 Includes books, magazines, newspapers, eReaders, and related shipping revenue.
2 Includes lifestyle, paper, toys, electronics, and related shipping revenue.
3 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Superstores [1]	**595,498**	439,797
Small format stores [1]	**93,081**	72,597
Online (including store kiosks)	**321,711**	369,955
Other [2]	**51,960**	22,389
Total	**1,062,250**	904,738

1 Includes sales on orders placed on *indigo.ca* and fulfilled through store pick-up.
2 Includes corporate sales, *plum*® PLUS revenue, *plum*® breakage, gift card breakage, Kobo revenue share, irewards, and a one-time payment from Starbucks.

Supplemental operating, selling, and other expenses information:

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Wages, salaries, and bonuses	**185,026**	146,959
Short-term benefits expense	**20,916**	17,857
Termination benefits expense	**3,534**	7,138
Retirement benefits expense	**1,902**	1,847
Share-based compensation	**864**	666
Total employee benefits expense	**212,242**	174,467

In fiscal 2022, the Company recognized payroll subsidies from the COVID-19 Canada Emergency Wage Subsidy ("CEWS") program of $2.3 million (2021 – $27.4 million). These subsidies were recorded as a reduction in the associated eligible salaries and wage expenses recognized in cost of operations and selling, general and administrative expenses.

Termination benefits arise when the Company terminates certain employment agreements.

In fiscal 2022, the Company recognized rent subsidies from the COVID-19 Canada Emergency Rent Subsidy ("CERS") program of $2.9 million (2021 – $1.1 million).

Contingent rents recognized as an expense during fiscal 2022 were $1.5 million (2021 – $0.9 million).

19. EARNINGS (LOSS) PER SHARE

Earnings (loss) per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options does not result in an adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the periods presented are as follows:

	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Weighted average number of common shares outstanding, basic	**27,771,387**	27,664,268
Effect of dilutive securities – stock options	**507,959**	–
Weighted average number of common shares outstanding, diluted	**28,279,346**	27,664,268

As at April 2, 2022, 2,411,050 anti-dilutive stock options were excluded from the computation of diluted net earnings per common share. As at April 3, 2021, the Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the diluted loss per share calculations.

20. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended April 2, 2022	53-week period ended April 3, 2021
Accounts receivable	**10,035**	(15,336)
Inventories	**(58,735)**	26,698
Prepaid expenses	**(1,230)**	(6,216)
Income taxes recoverable	**–**	138
Other assets	**(1,126)**	200
Accounts payable and accrued liabilities (current and long-term)	**31,923**	(18,207)
Unredeemed gift card liability	**4,600**	6,380
Provisions (current and long-term)	**(2,018)**	689
Deferred revenue	**4,213**	5,804
Net change in non-cash working capital balances	**(12,338)**	150

21. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are:

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

There were no changes to these objectives during the 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. The Company's main sources of capital are its current cash position 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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Foreign Exchange Risk

The Company is exposed to foreign exchange risk on foreign currency denominated transactions, monetary assets and liabilities denominated in a foreign currency, and net investments in foreign operations located in the United States. The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase 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 has a New Jersey retail location that incurs U.S. dollar expenses. The Company's New Jersey retail location generates sales in U.S. dollars, reducing the Company's overall net exposure.

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

In fiscal 2022, the effect of foreign currency translation on other comprehensive income (loss) was a gain of below \$0.1 million (2021 – loss of \$0.1 million), and the effect of foreign currency transactions on net earnings (loss) was a gain of \$0.2 million (2021 – loss of \$1.9 million).

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash and cash equivalents. 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, and derivative financial instruments. Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Accounts receivables 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 had been assessed to have minimal credit risk and have since been received.

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

Commodity Prices Risk

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

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

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 2023. 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 2, 2022 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	172,455	5,683	–	178,138
Provisions	55	417	–	472
Short-term lease liabilities	17,732	51,368	–	69,100
Long-term accrued liabilities	–	–	1,068	1,068
Long-term provisions	–	–	702	702
Long-term lease liabilities	–	–	448,084	448,084
Total	190,242	57,468	449,854	697,564

23. RELATED PARTY TRANSACTIONS

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

Transactions with Key Management Personnel

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

(thousands of Canadian dollars)	**52-week period ended April 2, 2022**	53-week period ended April 3, 2021
Wages, salaries, and bonus	**8,018**	5,156
Short-term benefits expense	**546**	151
Termination benefits expense	**–**	1,437
Retirement benefits expense	**62**	66
Share-based compensation	**784**	469
Directors' compensation	**162**	294
Total remuneration	**9,572**	7,573

During fiscal 2022, the Chief Executive Officer resumed their salary after electing to forgo compensation at the onset of the global pandemic. The Company's executive team also filled its vacancy for the role of Chief Commercial Officer.

Transactions with Shareholders

During fiscal 2022, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2022, the Company paid $0.4 million for these transactions (2021 – $0.3 million). As at April 2, 2022, Indigo had a nominal amount payable to these companies under standard payment terms (April 3, 2021 – $0.1 million). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

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

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 18 "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 52-week period ended April 2, 2022 and 53-week period ended April 3, 2021.

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

24. SUBSEQUENT EVENTS

On June 2, 2022, 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, 2023. 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 2, 2022

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

Katharine Poulter
Chief Commerical Officer

Martin Thibodeau
Chief Technology and Information 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 and Chief Executive Officer
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 2, 2022[1]	April 3, 2021[1]	March 28, 2020[1]	March 30, 2019	March 31, 2018[2]
SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	**595.5**	439.8	655.8	711.4	728.6
Small format stores	**93.1**	72.6	122.1	144.8	143.6
Online	**321.7**	370.0	162.7	175.9	176.8
Other	**52.0**	22.3	17.1	14.7	30.6
Total revenue	**1,062.3**	904.7	957.7	1,046.8	1,079.6
Adjusted EBITDA[3]	**32.5**	(28.3)	(7.3)	(19.1)	55.2
Earnings (loss) before income taxes	**3.3**	(56.9)	(100.3)	(49.6)	30.7
Net earnings (loss)	**3.3**	(57.9)	(185.0)	(36.8)	21.9
Net earnings (loss) per common share	**$0.12**	$(2.09)	$(6.72)	$(1.35)	$0.82
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	**58.3**	46.1	85.2	164.1	258.8
Total assets	**809.4**	799.5	883.0	610.5	634.0
Total liabilities	**781.5**	776.9	799.0	240.3	231.6
Total equity	**27.8**	22.6	84.0	370.1	402.4
Weighted average number of common shares outstanding, basic	**27,771,387**	27,664,268	27,515,109	27,354,358	26,849,418
Common shares outstanding at end of period	**27,349,711**	27,273,961	27,273,961	27,136,386	26,800,609
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**88**	88	88	89	86
Small format stores	**85**	89	108	115	123
Selling square footage at end of period (in thousands)					
Superstores	**1,941**	1,941	1,941	1,962	1,887
Small format stores	**222**	231	279	287	308
Sales per selling square foot					
Superstores	**307**	227	338	363	386
Small format stores	**419**	314	438	504	467

1 The Company implemented IFRS 16 *Leases* in fiscal 2020 using the modified retrospective approach. As a result, the Company's fiscal 2020, 2021 and 2022 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 later years, Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, asset disposals, share of earnings (loss) from equity investments, and impairment, 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 MD&A section of the Annual Report.

Investor Information

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STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

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ANNUAL MEETING

The 2022 Annual Meeting of Shareholders of Indigo Books & Music Inc. will be held on July 19, 2022 at 10:00 a.m. via live audio webcast at: https://virtual-meetings.tsxtrust.com/1352

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Indigo’s Commitment to Communities Across Canada

The Company supports a separate registered charity, called the Indigo Love of Reading Foundation (the “Foundation”), which is committed to addressing educational inequality, and more specifically the literacy crisis in Canada. The Foundation runs two annual national granting programs: the Literacy Fund Grant, which is a multi-year grant provided to high-needs schools across the country; and the Adopt a School program, a grassroots fundraising initiative that unites Indigo, its retail stores, Indigo’s staff, local schools, and their communities. In 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 $33.0 million to more than 3,000 high-needs elementary schools across Canada since 2004. The Foundation is dedicated to raising awareness about the critical importance of children's literacy while providing essential literary support to high-needs children across Canada.

Our Beliefs

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

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

—Rumi

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