FIRST QUARTER REPORT

FOR THE 13-WEEK PERIOD ENDED JUNE 27, 2015

"Creativity has got to start with humanity"

— *Marilyn Monroe*

Indigo
Enrich your life™

Indigo Chapters Coles indigo.ca

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 4, 2015 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13-week periods ended June 27, 2015 and June 28, 2014. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2015 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and notes contained in this Quarterly Report, the audited annual consolidated financial statements and accompanying notes for the 52-week period ended March 28, 2015 and the MD&A included in the Company's fiscal 2015 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 largest book, gift, and specialty toy retailer, operating stores in all ten provinces and one territory in Canada and offering online sales through its *indigo.ca* website. As at August 4, 2015, the Company operated 90 superstores under the banners *Chapters* and *Indigo*, and operated 126 small format stores under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*. During the first quarter of fiscal 2016, the Company closed one superstore and one small format store. The Company also has a 50% interest in Calendar Club of Canada Limited Partnership ("Calendar Club"), which operates seasonal kiosks and year-round stores in shopping malls across Canada.

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

The weighted average number of common shares outstanding for the first quarter of fiscal 2016 was 25,859,518 compared to 25,632,036 last year. As at August 4, 2015, the number of outstanding common shares was 25,549,681 with a book value of $206.4 million. The number of common shares reserved for issuance under the employee stock option plan is 3,332,452 as at August 4, 2015. As at June 27, 2015, there were 1,533,425 stock options outstanding of which 553,695 were exercisable.

Results of Operations

The following table summarizes the Company's consolidated results of operations for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers.

(millions of Canadian dollars)	**13-week period ended June 27, 2015**	**% Revenue**	13-week period ended June 28, 2014	% Revenue
Revenue	**184.9**	**100.0**	180.8	100.0
Cost of sales	**(103.5)**	**56.0**	(100.8)	55.8
Cost of operations	**(65.7)**	**35.5**	(66.3)	36.7
Selling, administrative, and other expenses	**(17.8)**	**9.6**	(21.0)	11.6
Adjusted EBITDA[1]	**(2.1)**	**(1.1)**	(7.3)	(4.0)

1 Earnings before interest, taxes, depreciation, amortization, impairment, and equity investment. Also see "Non-IFRS Financial Measures".

Revenue Increased Despite Operating Seven Fewer Stores

Total consolidated revenue for the 13-week period ended June 27, 2015 increased $4.1 million or 2.3% to $184.9 million from $180.8 million for the same period last year. The increase in revenue was attributable to continued growth in both the retail and online channels, driven by double-digit growth in general merchandise sales. Notably, the Company saw strong growth in both paper and electronics during the first quarter of fiscal 2016.

Comparable store sales for the first quarter increased 5.3% in superstores and decreased 1.0% in small format stores. The increase in superstores was driven by the reasons mentioned above. Small format stores hold less general merchandise inventory and saw slower sales growth compared to the same period last year, which resulted in the small decline in comparable store sales. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store

closings, permanent relocation, and chain expansion. As at June 27, 2015, the Company operated two fewer superstores and five fewer small format stores compared to June 28, 2014.

Online sales increased by $3.7 million or 18.2% to $24.0 million for the 13-week period ended June 27, 2015 compared to $20.3 million for the same period last year. Online sales continued to experience growth in books and double-digit increases in general merchandise. The growth in online sales compared to the same period last year was partly driven by the Company's rollout of Visa Checkout and related promotional activity. Indigo continues to be strongly committed to developing the digital customer experience and moving towards becoming an omni-channel retailer.

Revenue from other sources includes revenue generated through cafés, irewards card sales, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed plum points ("Plum breakage"), corporate sales, and revenue-sharing with Kobo. Revenue from other sources decreased $1.0 million or 17.9% to $4.6 million for the 13-week period ended June 27, 2015 compared to $5.6 million for the same period last year primarily as a result of lower café sales. Café sales were lower by $0.4 million compared to the same period last year as the Company operated one fewer café location in fiscal 2016. Consistent with the Company's expectations, irewards card sales continued to decrease as members moved to the free plum rewards program ("Plum"). The Company also has lower revenue sharing from Kobo as a result of slowing eBook growth.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014	% increase (decrease)	Comparable store sales % increase (decrease)
Superstores	**132.0**	129.7	1.8	5.3
Small format stores	**24.3**	25.2	(3.6)	(1.0)
Online (including store kiosks)	**24.0**	20.3	18.2	N/A
Other	**4.6**	5.6	(17.9)	N/A
	184.9	180.8	2.3	4.3

Revenue by product line is as follows:

	13-week period ended June 27, 2015	13-week period ended June 28, 2014
Print[1]	**65.7%**	68.1%
General merchandise[2]	**30.6%**	27.4%
eReading[3]	**1.9%**	2.2%
Other[4]	**1.8%**	2.4%
Total	**100.0%**	100.0%

1 Includes books, calendars, magazines, newspapers, and shipping revenue.
2 Includes lifestyle, paper, toys, music, DVDs, electronics, and shipping revenue.
3 Includes eReaders, eReader accessories, Kobo revenue share, and shipping revenue.
4 Includes cafés, irewards, gift card breakage, Plum breakage, and corporate sales.

A reconciliation between total revenue and comparable store sales is provided below:

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Total revenue	**132.0**	129.7	**24.3**	25.2
Adjustments for stores not in both fiscal periods	**(1.0)**	(5.3)	**(0.1)**	(0.8)
Comparable store sales	**131.0**	124.4	**24.2**	24.4

Cost of Sales (as a Percent of Revenue) Increased Compared to Last Year

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 $2.7 million to $103.5 million for the 13-week period ended June 27, 2015 compared to $100.8 million for the same period last year. The increase was driven by higher retail and online sales volumes, as discussed above. Cost of sales as a percent of total revenue increased by 0.2% to 56.0% this period compared to 55.8% for the same period last year. This percentage increase was driven by lower Other Revenue, which has a higher margin percentage.

Cost of Operations (as a Percent of Revenue) Improved Compared to Last Year

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased $0.6 million to $65.7 million for the 13-week period ended June 27, 2015 compared to $66.3 million for the same period last year. Store operating costs have decreased by $1.0 million as a result of operating fewer stores, while online costs have increased as a result of higher sales volumes. Compared to the same period last year, store labour costs were $0.5 million lower and occupancy costs were $0.3 million lower, while online costs were $0.3 million higher. As a percent of total revenue, cost of operations decreased by 1.2% to 35.5% this period compared to 36.7% for the same period last year as a result of both higher revenues and lower costs in the current year.

Selling, Administrative, and Other Expenses (as a Percent of Revenue) Decreased Compared to Last Year

Selling, administrative, and other expenses include marketing, head office costs, and operating expenses associated with the Company's transformation. For the 13-week period ended June 27, 2015, these expenses decreased $3.2 million to $17.8 million, compared to $21.0 million for the same period last year. The decrease in expenses was primarily driven by proceeds from the disposal of a store lease. As part of the disposal agreement, the Company received a one-time payment which offset its lease surrender costs. The net proceeds for exiting this lease were $4.5 million. The Company also had a foreign exchange gain of $0.1 million in the first quarter of fiscal 2016 compared to a foreign exchange loss of $0.7 million last year. These reductions in expenses were partially offset by a $1.1 million increase in marketing expenses as the Company had more promotional campaigns this period compared to the same period last year. As a percent of total revenue, selling, administrative, and other expenses decreased by 2.0% to 9.6% this period compared to 11.6% for the same period last year primarily as a result of the lease disposal.

Adjusted EBITDA Improved Compared to Last Year

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, and equity investment improved by $5.2 million to a loss of $2.1 million for the 13-week period ended June 27, 2015 compared to a loss of $7.3 million for the same period last year. Adjusted EBITDA as a percent of revenue was a loss of 1.1% this period compared to a loss of 4.0% for the same period last year. As discussed above, the improvement was driven by continued growth in sales at improved margin rates and by lower operating costs.

Depreciation and Amortization Decreased Compared to Last Year
Depreciation and amortization for the 13-week period ended June 27, 2015 decreased by $0.6 million to $6.0 million compared to $6.6 million for the same period last year. Capital expenditures in the first quarter of fiscal 2016 totalled $3.6 million and included $2.0 million for store construction, renovations, and equipment, $1.4 million for intangible assets (primarily application software and internal development costs), and $0.2 million for technology equipment. None of the $0.2 million expenditure in technology equipment was financed through leases. Capital expenditures remained relatively flat compared to the same period last year as the Company budgeted a number of strategic initiatives to begin later in fiscal 2016.

Net Interest Income Remained Flat Compared to Last Year
The Company recognized net interest income of $0.4 million for the 13-week period ended June 27, 2015 compared to $0.4 million for the same period last year. Compared to the same period last year, the Company maintained a higher average cash balance for the period; this increase was offset by lower average interest rates in fiscal 2016. The Company nets interest income against interest expense.

Loss from Equity Investment Remained Flat Compared to Last Year
The Company uses the equity method to account for its investment in Calendar Club and recognizes its share of Calendar Club's earnings and losses as part of consolidated net earnings and losses. Indigo recognized a net loss from Calendar Club of $0.5 million for the 13-week period ended June 27, 2015 compared to a net loss of $0.5 million for the same period last year.

Income Tax Remained Flat Compared to Last Year
The Company did not recognize any income tax recovery or expense for the 13-week periods ended June 27, 2015 and June 28, 2014. In fiscal 2015, the Company recorded a valuation allowance against deferred tax assets based on management's best estimate of future taxable income that the Company expected to achieve from reviewing its latest forecast. The Company's view of its latest forecast has not changed since the fiscal 2015 period end, and as such, there is no change to the net deferred tax asset for the first quarter of fiscal 2016, as the increase in the gross amount of the deferred tax asset was offset by an equal increase in the valuation allowance.

Net Loss Improved Compared to Last Year

The Company recognized a net loss of $9.0 million for the 13-week period ended June 27, 2015 ($0.35 net loss per common share), compared to a net loss of $14.0 million ($0.55 net loss per common share) for the same period last year. As discussed above, the improvement was driven by continued revenue growth in the current period and by the Company's one-time proceeds from the disposal of a lease.

Seasonality and First Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the December holiday sales season. A disproportionate amount of revenues and profits 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 following table sets out revenue, net earnings (loss), and basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q1 Fiscal 2016**	Q4 Fiscal 2015	Q3 Fiscal 2015	Q2 Fiscal 2015	Q1 Fiscal 2015	Q4 Fiscal 2014	Q3 Fiscal 2014	Q2 Fiscal 2014
Revenue	**184.9**	186.2	339.4	189.0	180.8	184.3	332.4	179.4
Total net earnings (loss)	**(9.0)**	(13.9)	33.0	(8.5)	(14.0)	(14.4)	8.5	(10.1)
Basic earnings (loss) per share	**$ (0.35)**	$ (0.54)	$ 1.28	$ (0.33)	$ (0.55)	$ (0.56)	$ 0.33	$ (0.39)
Diluted earnings (loss) per share	**$ (0.35)**	$ (0.54)	$ 1.27	$ (0.33)	$ (0.55)	$ (0.56)	$ 0.33	$ (0.39)

Overview of Consolidated Balance Sheets

Total Assets

As at June 27, 2015, total assets increased $13.0 million to $514.2 million compared to $501.2 million as at June 28, 2014. The increase was primarily due to a $26.0 million increase in cash and cash equivalents driven by adjusted EBITDA earnings of $25.7 million and $12.6 million of cash generated from working capital over the past four quarters. These increases were partly offset by $17.2 million of cash used for capital asset purchases over the past four quarters. Accounts receivable also increased by $4.6 million primarily as a result of incentives receivable from a one-time lease disposal, as previously discussed. These increases were partially offset by a $7.7 million reduction in inventories, a $5.2 million reduction in intangible assets, and a $4.0 million reduction in

property, plant, and equipment. Inventories decreased primarily as the result of store closures. The reduction in capital asset purchases drove the reductions in the intangible asset and property, plant, and equipment balances.

On a fiscal year-to-date basis, total assets decreased $24.2 million to $514.2 million compared to $538.4 million as at March 28, 2015. The decrease was primarily driven by decreases in cash and cash equivalents and inventories. The $26.5 million decrease in cash and cash equivalents and $2.9 million decrease in inventories are both consistent with the seasonal nature of the business. These decreases were partly offset by an $8.5 million increase in accounts receivable. The increase was mainly driven by the one-time lease disposal, as previously discussed.

Total Liabilities

As at June 27, 2015, total liabilities increased $8.6 million to $211.3 million compared to $202.7 million as at June 28, 2014. The increase was primarily the result of a $7.0 million increase in current and long-term accounts payable and accrued liabilities. The increase in current and long-term accounts payable and accrued liabilities was primarily driven by the timing of inventory payments made in the current year compared to last year.

On a fiscal year-to-date basis, total liabilities decreased $15.9 million to $211.3 million compared to $227.2 million as at March 28, 2015. The decrease was primarily due to a $16.2 million decrease in current and long-term accounts payable and accrued liabilities as a result of the timing of payments at quarter-end.

Total Equity

Total equity at June 27, 2015 increased $4.4 million to $302.8 million compared to $298.4 million as at June 28, 2014. The increase in total equity was primarily driven by a reduction in net loss to $9.0 million for the current year compared to net loss of $14.0 million last year. Share capital increased by $1.9 million due to the exercise of stock options. Contributed surplus increased $1.0 million due to the expensing of employee stock options and Directors' deferred share units.

Working Capital and Leverage

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

The Company reported working capital of $192.7 million as at June 27, 2015, compared to $179.1 million as at June 28, 2014 and $198.7 million as at

March 28, 2015. The increase was driven by the $26.0 million increase in cash and cash equivalents discussed previously, as the Company had lower capital expenditures and higher sales in the current period compared to the same period last year. This increase was partially offset by the $7.0 million increase in current and long-term accounts payable and accrued liabilities discussed above.

The Company's leverage position (defined as Total Liabilities to Total Equity) remained flat at 0.7:1 as at June 27, 2015, June 28, 2014, and March 28, 2015.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $26.5 million for the 13-week period ended June 27, 2015 compared to a decrease of $6.9 million in the same period last year. The decrease in the current period was driven by cash flows used for operating activities of $22.9 million, investing activities of $3.4 million, and the effect of foreign currency exchange rate changes on cash and cash equivalents of $0.3 million. These decreases were partially offset by cash generated from financing activities of $0.1 million.

Cash Flows Used by Operating Activities

The Company used cash flows of $22.9 million for operating activities in the 13-week period ended June 27, 2015 compared to using $2.0 million last year, an increased use of $20.9 million. The Company used $21.6 million of cash for working capital this year compared to generating $3.6 million of cash from working capital last year. The increased use of cash for working capital was primarily driven by the timing of payments made for current accounts payable and accrued liabilities. At the beginning of fiscal 2016, current accounts payable and accrued liabilities were $24.2 million higher than the beginning of fiscal 2015, which resulted in the increase of cash used during the first quarter of fiscal 2016 compared to the same period last year. This increase was partially offset by a reduction in net loss, as the Company had a net loss of $9.0 million this year compared to a net loss of $14.0 million last year.

Cash Flows Used by Investing Activities

The Company used cash flows of $3.4 million for investing activities for the 13-week period ended June 27, 2015 compared to using $3.9 million in the same period last year, a decrease of $0.5 million. The decrease resulted from a reduction in capital asset additions in the current period compared to last year. As previously discussed, the Company has budgeted a number of strategic projects to begin later in the current year.

Total cash spent on capital projects for the 13-week period ended June 27, 2015 was $3.6 million compared to $4.2 million spent last year, as outlined below:

(millions of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Store construction, renovations, and equipment	**2.0**	1.6
Intangible assets (primarily application software and internal development costs)	**1.4**	2.0
Technology equipment	**0.2**	0.6
	3.6	4.2

Cash Flows from Financing Activities

The Company generated cash flows of $0.1 million from financing activities for the 13-week period ended June 27, 2015 compared to generating $0.1 million in the same period last year. The Company had no significant changes in its financing activities compared to last year.

Liquidity and Capital Resources

The Company has a highly seasonal business which generates the majority of its revenue and cash flows during the December holiday season. Indigo has minimal accounts receivable and a significant portion of book products are purchased on trade terms with the right to return. Indigo's main sources of capital are cash flows generated from operations, long-term debt, and cash and cash equivalents.

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position and cash flows generated from operations to be sufficient to meet its working capital needs and debt service requirements for fiscal 2016. In addition, the Company has the ability to reduce capital spending to fund debt requirements if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

There can be no assurance that operating levels will not deteriorate over the ensuing fiscal year, which could result in the Company being unable to meet its current working capital and debt service requirements. In addition, other factors not presently known to management could materially and adversely affect Indigo's future cash flows. In such events, the Company would be required to obtain additional capital as is necessary to satisfy its working capital and debt service requirements from other sources. Alternative sources of capital could result in increased dilution to shareholders and may be on terms that are not favourable to the Company.

Accounting Policies

Critical Accounting Judgments and Estimates

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

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards and plum points; fair value of plum points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlement; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs") and expected future cash flows from CGUs; depreciation and amortization periods; lease classification; and recognition and valuation of deferred tax assets.

The Company evaluates its judgments and estimates on an ongoing basis and methods used to calculate critical accounting estimates are consistent with prior periods. The significant accounting policies and significant judgments and estimates of the Company are described in notes 3 and 4 of the consolidated financial statements contained in the Company's fiscal 2015 Annual Report.

Accounting Standards Implemented in the First Quarter of Fiscal 2016

There were no new accounting standards implemented in the period.

New Accounting Pronouncements

Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a new standard that specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Application of IFRS 15 is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments, and insurance contracts. IFRS 15 must be

applied for reporting periods beginning on or after January 1, 2018 and early adoption is permitted. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement," and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the impact of the new standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

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.

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.

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 period beginning on March 29, 2015 and ended on June 27, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analysis 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. However, whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

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

Comparable stores sales and adjusted EBITDA are key indicators used by the Company to measure performance against internal targets and prior period results. Both measures are commonly used by financial analysts and investors to compare Indigo to other retailers. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocation, and chain expansion. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, and equity investment. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

A reconciliation between comparable store sales and revenue (the most comparable IFRS measure) was included earlier in this report. A reconciliation between adjusted EBITDA and earnings (loss) before income taxes (the most comparable IFRS measure) is provided below:

(millions of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Adjusted EBITDA	**(2.1)**	(7.3)
Depreciation of property, plant, and equipment	**(3.6)**	(3.7)
Amortization of intangible assets	**(2.5)**	(2.9)
Disposal of capital assets	**(0.7)**	0.0
Interest on long-term debt and financing charges	**0.0**	0.0
Interest income on cash and cash equivalents	**0.4**	0.4
Share of loss from equity investment	**(0.5)**	(0.5)
Loss before income taxes	**(9.0)**	(14.0)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Heather Reisman
Chair and Chief Executive Officer

Laura Carr
Chief Financial Officer

Dated as of the 4th day of August, 2015.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at June 27, 2015**	As at June 28, 2014	As at March 28, 2015
ASSETS			
Current			
Cash and cash equivalents (note 5)	**176,711**	150,667	203,162
Accounts receivable	**13,370**	8,802	4,896
Inventories (note 6)	**205,528**	213,185	208,395
Income taxes recoverable	**25**	–	25
Prepaid expenses	**5,627**	6,182	5,477
Total current assets	**401,261**	378,836	421,955
Property, plant, and equipment	**52,897**	56,931	54,886
Intangible assets	**15,536**	20,723	16,587
Equity investment	**219**	79	726
Deferred tax assets	**44,241**	44,604	44,241
Total assets	**514,154**	501,173	538,395
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**145,599**	138,553	160,645
Unredeemed gift card liability	**48,470**	46,776	48,211
Provisions	**745**	911	913
Deferred revenue	**13,560**	13,002	13,298
Current portion of long-term debt (note 12)	**144**	446	172
Total current liabilities	**208,518**	199,688	223,239
Long-term accrued liabilities	**2,661**	2,719	3,841
Long-term provisions	**99**	153	110
Long-term debt (note 12)	**33**	177	56
Total liabilities	**211,311**	202,737	227,246
Equity			
Share capital (note 7)	**206,118**	204,204	205,871
Contributed surplus (note 8)	**10,170**	9,198	9,770
Retained earnings	**86,555**	85,034	95,508
Total equity	**302,843**	298,436	311,149
Total liabilities and equity	**514,154**	501,173	538,395

See accompanying notes

On behalf of the Board:

Heather Reisman, Director

Michael Kirby, Director

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Revenue (note 9)	**184,894**	180,802
Cost of sales	**(103,510)**	(100,849)
Gross profit	**81,384**	79,953
Operating, selling, and administrative expenses (note 9)	**(90,219)**	(93,810)
Operating loss	**(8,835)**	(13,857)
Interest on long-term debt and financing charges	**(2)**	(9)
Interest income on cash and cash equivalents	**391**	377
Share of loss from equity investment	**(507)**	(519)
Net loss and comprehensive loss for the period	**(8,953)**	(14,008)
Net loss per common share (note 10)		
Basic	**$ (0.35)**	$ (0.55)
Diluted	**$ (0.35)**	$ (0.55)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance, March 29, 2014	203,812	8,820	99,042	311,674
Loss for the 13-week period ended June 28, 2014	–	–	(14,008)	(14,008)
Exercise of options (notes 7 and 8)	392	(61)	–	331
Share-based compensation (note 8)	–	335	–	335
Directors' compensation (note 8)	–	104	–	104
Balance, June 28, 2014	204,204	9,198	85,034	298,436
Balance, March 28, 2015	**205,871**	**9,770**	**95,508**	**311,149**
Net loss for the 13-week period ended June 27, 2015	**–**	**–**	**(8,953)**	**(8,953)**
Exercise of options (notes 7 and 8)	**247**	**(43)**	**–**	**204**
Share-based compensation (note 8)	**–**	**332**	**–**	**332**
Directors' compensation (note 8)	**–**	**111**	**–**	**111**
Balance, June 27, 2015	**206,118**	**10,170**	**86,555**	**302,843**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	**(8,953)**	(14,008)
Add (deduct) items not affecting cash		
Depreciation of property, plant, and equipment	**3,584**	3,698
Amortization of intangible assets	**2,454**	2,868
Disposal of capital assets (note 9)	**659**	7
Share-based compensation (note 8)	**332**	335
Directors' compensation (note 8)	**111**	104
Other	**439**	1,231
Net change in non-cash working capital balances (note 11)	**(21,641)**	3,587
Interest on long-term debt and financing charges	**2**	9
Interest income on cash and cash equivalents	**(391)**	(377)
Share of loss from equity investment	**507**	519
Cash flows used in operating activities	**(22,897)**	(2,027)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	**(2,253)**	(2,160)
Addition of intangible assets	**(1,404)**	(2,004)
Interest received	**227**	291
Cash flows used in investing activities	**(3,430)**	(3,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(51)**	(186)
Interest paid	**(17)**	(10)
Proceeds from share issuances (note 7)	**204**	331
Cash flows from financing activities	**136**	135
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(260)**	(1,146)
Net decrease in cash and cash equivalents during the period	**(26,451)**	(6,911)
Cash and cash equivalents, beginning of period	**203,162**	157,578
Cash and cash equivalents, end of period	**176,711**	150,667

See accompanying notes

Notes to the Interim Condensed Consolidated Financial Statements

June 27, 2015
(Unaudited)

1. CORPORATE INFORMATION

Indigo Books & Music Inc. (the "Company" or "Indigo") is a corporation domiciled and incorporated under the laws of the Province of Ontario in Canada. The Company's registered office is located at 468 King Street West, Toronto, Ontario, M5V 1L8, Canada. The unaudited interim condensed consolidated financial statements of the Company comprise the Company, its equity investment in Calendar Club of Canada Limited Partnership ("Calendar Club"), and its wholly-owned subsidiary, Soho Inc. The Company is the ultimate parent of the consolidated organization.

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2015 Annual Report were followed in the preparation of these unaudited interim condensed consolidated financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's fiscal 2015 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13-week period ended June 27, 2015 (including comparatives) were approved by the Board of Directors on August 4, 2015.

Significant Judgments and Estimates

The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates

are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates.

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards and plum rewards program ("Plum") points; fair value of Plum points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlement; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs") and expected future cash flows from CGUs; depreciation and amortization periods; lease classification; and recognition and valuation of deferred tax assets.

3. CHANGES IN ACCOUNTING POLICIES

There were no new accounting standards implemented in the period.

New Accounting Pronouncements

Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a new standard that specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Application of IFRS 15 is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments, and insurance contracts. IFRS 15 must be applied for reporting periods beginning on or after January 1, 2018 and early adoption is permitted. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement," and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the impact of the new standard on its results of operations, financial position,

and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

4. SEASONALITY OF OPERATIONS

The business of Indigo follows a seasonal pattern, with sales of merchandise being highest in the third fiscal quarter due to consumer holiday buying patterns. As a result, a disproportionate portion of total annual revenue is typically earned in the third fiscal quarter. Therefore, the results of operations for the 13-week periods ended June 27, 2015 and June 28, 2014 are not indicative of the results of other periods.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**June 27, 2015**	June 28, 2014	March 28, 2015
Cash	**122,983**	86,181	139,658
Restricted cash	**3,340**	3,600	3,138
Cash equivalents	**50,388**	60,886	60,366
Cash and cash equivalents	**176,711**	150,667	203,162

Restricted cash represents cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of offshore merchandise.

6. INVENTORIES

The cost of inventories recognized as an expense was $105.2 million for the 13-week period ended June 27, 2015 (2014 – $101.6 million). Inventories consist of the landed cost of goods sold and exclude online shipping costs, 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 was $2.1 million for the 13-week period ended June 27, 2015 (2014 – $2.3 million), and there were no reversals of inventory write-downs that were recognized for the 13-week period ended June 27, 2015 (2014 – nil). The amount of inventory with net realizable value equal to cost was $2.1 million as at June 27, 2015 (June 28, 2014 – $1.8 million).

7. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended June 27, 2015		13-week period ended June 28, 2014		52-week period ended March 28, 2015	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**25,495,289**	**205,871**	25,298,239	203,812	25,298,239	203,812
Issued during the period						
Options exercised	**25,250**	**247**	43,700	392	197,050	2,059
Balance, end of period	**25,520,539**	**206,118**	25,341,939	204,204	25,495,289	205,871

8. SHARE-BASED COMPENSATION

As at June 27, 2015, 1,533,425 stock options were outstanding with exercise prices ranging from $8.00 to $15.21. Of these outstanding stock options, 553,695 were exercisable. As at June 28, 2014, there were 2,118,350 stock options outstanding of which 218,390 were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period.

There were no options granted for the 13-week period ended June 27, 2015 (2014 – the pre-forfeiture rate fair values of options granted was $1.3 million).

The fair value of the employee stock options is estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions in the comparative prior year period:

	13-week period ended June 28, 2014
Black-Scholes option pricing assumptions	
Risk-free interest rate	1.2%
Expected volatility	33.9%
Expected time until exercise	3.0 years
Expected dividend yield	–
Other assumptions	
Forfeiture rate	26.8%

Directors' Compensation

The Company has established a Directors' Deferred Share Unit Plan ("DSU Plan"). Under the DSU Plan, Directors receive their annual retainer fees and

other Board-related compensation in the form of deferred share units ("DSUs"). The number of shares reserved for issuance under this plan is 500,000. The Company issued 10,944 DSUs with a value of $0.1 million for the 13-week period ended June 27, 2015 (2014 – 9,869 DSUs with a value of $0.1 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at June 27, 2015 was $3.8 million (June 28, 2014 – $3.4 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

9. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

	13-week period ended June 27, 2015	13-week period ended June 28, 2014
Print[1]	**121,455**	123,074
General merchandise[2]	**56,515**	49,531
eReading[3]	**3,454**	3,892
Other[4]	**3,470**	4,305
Total	**184,894**	180,802

1 Includes books, calendars, magazines, newspapers, and shipping revenue.
2 Includes lifestyle, paper, toys, music, DVDs, electronics, and shipping revenue.
3 Includes eReaders, eReader accessories, Kobo revenue share, and shipping revenue.
4 Includes cafés, irewards, gift card breakage, Plum breakage, and corporate sales.

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Wages, salaries, and bonuses	**39,215**	39,119
Short-term benefits expense	**4,876**	4,794
Termination benefits expense	**386**	170
Retirement benefits expense	**335**	342
Share-based compensation	**332**	335
Total employee benefits expense	**45,144**	44,760

Termination benefits arise when the Company terminates certain employment agreements.

For the 13-week period ended June 27, 2015, operating, selling, and administrative expenses also included incentives received for the disposal of a store lease. These incentives offset costs incurred as part of surrendering the lease. The Company recorded one-time net proceeds of $4.5 million and had a $0.7 million disposal of capital assets related to the lease surrender.

10. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the June 27, 2015 and June 28, 2014 diluted loss per share calculations.

11. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Net change in non-cash working capital balances:		
Accounts receivable	**(8,474)**	(3,220)
Inventories	**2,867**	5,794
Prepaid expenses	**(150)**	(998)
Accounts payable and accrued liabilities (current and long-term)	**(16,226)**	1,948
Unredeemed gift card liability	**259**	(51)
Provisions	**(179)**	(28)
Deferred revenue	**262**	142
	(21,641)	3,587

The Company did not acquire any assets under finance leases during the 13-week periods ended June 27, 2015 and June 28, 2014.

12. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are to safeguard its ability to continue as a going concern while maintaining adequate financial flexibility to invest in new business opportunities that will provide attractive returns to share-holders. The primary activities engaged by the Company to generate attractive returns include construction and related leasehold improvements of stores, the development of new business concepts, and investment in information technology and distribution capacity to support the online and retail networks. The Company's

main sources of capital are its current cash position, cash flows generated from operations, and long-term debt. Cash flow is used to fund working capital needs, capital expenditures, and debt service requirements. There were no changes to these objectives for the 13-week period ended June 27, 2015. The Company primarily manages its capital by monitoring its available cash balance to ensure that sufficient funds are available for long-term debt and interest payments over the next year.

The following table summarizes selected capital structure information for the Company:

(thousands of Canadian dollars)	**June 27, 2015**	June 28, 2014	March 28, 2015
Current portion of long-term debt	**144**	446	172
Long-term debt	**33**	177	56
Total debt	**177**	623	228
Total equity	**302,843**	298,436	311,149
Total capital under management	**303,020**	299,059	311,377

13. RELATED PARTY TRANSACTIONS

The Company's related parties include its key management personnel, shareholders, defined contribution retirement plan, equity investment in Calendar Club, and subsidiary. Unless otherwise stated, none of the 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 Executive Officers of the Company. Key management personnel remuneration includes the following expenses:

(thousands of Canadian dollars)	**13-week period ended June 27, 2015**	13-week period ended June 28, 2014
Wages, salaries, and bonus	**1,227**	1,189
Short-term benefits expense	**50**	48
Retirement benefits expense	**16**	12
Share-based compensation	**188**	229
Directors' compensation	**111**	104
Total remuneration	**1,592**	1,582

Transactions with Shareholders

During the first quarter of fiscal 2016, Indigo 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. For the 13-week period ended June 27, 2015, Indigo paid $0.6 million for these goods and services (2014 – less than $0.1 million). As at June 27, 2015, Indigo had $0.1 million payable to these companies under standard payment terms and $2.8 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (June 28, 2014 – no amounts payable and $2.8 million restricted cash). All transactions were in the normal course of business for both Indigo and the related companies.

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 9. The Company has not entered into other transactions with the retirement plan.

Transactions with Associate

The Company's associate, Calendar Club, is a seasonal operation which is dependent on the December holiday sales season to generate revenue. During the year, the Company loans cash to Calendar Club for working capital requirements and Calendar Club repays the loans once profits are generated in the third quarter. The net amount of these transactions for the 13-week period ended June 27, 2015 was $2.5 million paid by Indigo (2014 – $2.0 million paid by Indigo).

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Trading Symbol

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