

“A WORD
AFTER A WORD
AFTER A WORD
IS POWER.”

Margaret Atwood

FIRST QUARTER REPORT
FOR THE 13-WEEK PERIOD
ENDED JULY 2, 2016

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 9, 2016 and is based primarily on the unaudited interim condensed consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 13-week periods ended July 2, 2016 and June 27, 2015.

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 2016 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 53-week period ended April 2, 2016 and the MD&A included in the Company's fiscal 2016 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 the *indigo.ca* website and the Company's mobile applications. As at August 9, 2016, the Company operated 89 superstores under the banners *Chapters* and *Indigo* and 123 small format stores under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*. During the first quarter of fiscal 2017, the Company opened one superstore. 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.

The Company 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 2017 was 26,220,455 compared to 25,859,518 for the same period last year. As at August 9, 2016, the number of outstanding common shares was 25,892,951 with a book value of \$210.5 million. The number of common shares reserved for issuance under the employee stock option plan is 3,383,943 as at August 9, 2016. As at July 2, 2016, there were 1,662,400 stock options outstanding of which 734,375 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 July 2, 2016	% Revenue	13-week period ended June 27, 2015	% Revenue
Revenue	193.1	100.0	184.9	100.0
Cost of sales	(107.2)	55.5	(103.5)	56.0
Cost of operations	(67.5)	35.0	(65.3)	35.3
Selling, administrative, and other expenses	(24.5)	12.7	(18.2)	9.8
Adjusted EBITDA¹	(6.1)	(3.2)	(2.1)	(1.1)

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

Revenue Increased Despite Operating Fewer Stores

Total consolidated revenue for the 13-week period ended July 2, 2016 increased \$8.2 million or 4.4% to \$193.1 million from \$184.9 million for the 13-week period ended June 27, 2015. Higher revenue was driven by continued growth in all sales channels across a number of product categories. General merchandise sales continued to show double-digit growth, with units increasing across a number of categories. Book sales also continued to be solid despite the lack of blockbuster titles, remaining flat against strong growth in the same period last year.

Comparable store sales for the first quarter increased 7.7% in superstores and 7.8% in small format stores. The increase was mainly driven by the reasons discussed above. 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 openings and closings, permanent relocation, and material changes in square footage. As at July 2, 2016, the Company operated one less superstore and three fewer small format stores compared to June 27, 2015.

Online revenue increased by \$0.9 million or 3.8% to \$24.9 million for the 13-week period ended July 2, 2016 compared to \$24.0 million in the same period last year. Growth continued to be driven by higher traffic and conversion rates. Online sales continued to experience double-digit increases in general merchandise, driven by sales of lifestyle, paper, toy and baby products. Overall growth was lower in the current period as the online channel cycled over a successful vendor-funded promotion in the same period last year.

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 remained flat at \$4.6 million for the 13-week periods ended July 2, 2016 and June 27, 2016 as decreases in Kobo revenue share and irewards card sales were offset by higher gift card breakage. Kobo revenue share decreased by \$0.2 million due to the slowing pace of eBook sales and irewards card sales decreased by \$0.1 million compared to last year. This decrease is consistent with the Company’s expectations as members move to the free plum rewards program. Gift card breakage increased by \$0.3 million based on historical redemption rates.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	13-week period ended	13-week period ended	% increase	Comparable store sales % increase
	July 2, 2016	June 27, 2015		
Superstores	137.4	132.0	4.1	7.7
Small format stores	26.2	24.3	7.8	7.8
Online (including store kiosks)	24.9	24.0	3.8	N/A
Other	4.6	4.6	0.0	N/A
Total	193.1	184.9	4.4	7.7

Revenue by product line is as follows:

	13-week period ended July 2, 2016	13-week period ended June 27, 2015
Print ¹	62.7%	65.7%
General merchandise ²	34.1%	30.6%
eReading ³	1.3%	1.8%
Other ⁴	1.9%	1.9%
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, rewards, gift card breakage, Plum breakage, and corporate sales.

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

	Superstores		Small format stores	
	13-week period ended July 2, 2016	13-week period ended June 27, 2015	13-week period ended July 2, 2016	13-week period ended June 27, 2015
(millions of Canadian dollars)				
Total revenue	137.4	132.0	26.2	24.3
Adjustments for stores not in both fiscal periods	(7.0)	(10.9)	(1.4)	(1.3)
Comparable store sales	130.4	121.1	24.8	23.0

Cost of Sales (as a Percent of Revenue) Decreased 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 \$3.7 million to \$107.2 million, compared to \$103.5 million for the same period last year. The increase was driven by higher retail and online sales volumes, as discussed above. However, cost of sales as a percent of total revenue decreased by 0.5% to 55.5%, compared to 56.0% for the same period last year. Margin rate improvements were driven by more effective promotional discounting and by pricing adjustments made to reduce the impact of a weaker Canadian dollar.

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

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased \$2.2 million to \$67.5 million this year, compared to \$65.3 million for the same period last year. Store operating costs were \$1.7 million higher compared to the same period last year, primarily driven by higher labour costs due to increased wage rates. However, as a percent of total revenue, cost of operations decreased by 0.3% to 35.0% this year, compared to 35.3% for the same period last year, driven by higher revenue in the current year and the Company's continued focus on improving productivity.

Selling, Administrative, and Other Expenses Increased Compared to Last Year

Selling, administrative, and other expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses increased \$6.3 million to \$24.5 million, compared to \$18.2 million for the same period last year. In the same period last year, the Company received one-time net proceeds of \$4.5 million related to exiting a lease, without which current year expenses would only have increased by \$1.8 million.

Operating expenditures related to strategic projects increased by \$0.8 million compared to the same period last year as the Company continues to implement transformational projects across its retail locations, focus on productivity initiatives, and make system enhancements. Creative costs related to the Company's product design team in New York are primarily paid in U.S. dollars and increased by \$0.3 million compared to the same period last year due to the weaker Canadian dollar. The Company also had a foreign exchange loss of \$0.2 million in the first quarter of fiscal 2017 compared to a foreign exchange gain of \$0.1 million in the same period last year. As a percent of total revenue, selling, administrative, and other expenses increased by 2.9% to 12.7%, compared to 9.8% for the same period last year as a result of higher expenses in the current year and the one-time impact of proceeds received in the same period last year, as discussed above.

Adjusted EBITDA Decreased Compared to Last Year

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment decreased \$4.0 million to a loss of \$6.1 million for the 13-week period ended July 2, 2016, compared to a loss of \$2.1 million for the same period last year. Adjusted EBITDA as a percent of revenue decreased to a loss of 3.2% this period

compared to a loss of 1.1% for the same period last year. As discussed above, the decrease related to the one-time impact of receiving \$4.5 million from exiting a lease in the same period last year. Excluding this impact, adjusted EBITDA increased \$0.5 million compared to the same period last year.

Depreciation and Amortization Remained Flat Compared to Last Year

Depreciation and amortization remained flat at \$6.0 million for the 13-week periods ended July 2, 2016 and June 27, 2015. Capital expenditures in the first quarter of fiscal 2017 totalled \$7.4 million compared to \$3.6 million last year. Capital expenditures increased compared to the same period last year primarily due to the opening of a new superstore and the implementation of automation in the online distribution centre. Capital expenditures in the first quarter of fiscal 2017 included \$4.9 million for construction, renovations and equipment, \$2.0 million for intangible assets (primarily application software and internal development costs), and \$0.5 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income Increased Compared to Last Year

The Company recognized net interest income of \$0.5 million for the 13-week period ended July 2, 2016 compared to \$0.4 million for the 13-week period ended June 27, 2016. Compared to the same period last year, the Company maintained a higher average cash balance for the period. 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. Calendar Club is a seasonal operation that is dependent on the December holiday sales season to generate revenue. The Company recognized a net loss from Calendar Club of \$0.5 million in each of the 13-week periods ended July 2, 2016 and June 27, 2015.

Income Tax Recovery Increased Compared to Last Year

The Company recognized net income tax recovery of \$3.1 million for the 13-week period ended July 2, 2016 compared to recognizing no income tax for the 13-week period ended June 27, 2015. In the same period last year, 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, which resulted in a full offset between the increases in gross deferred tax asset and valuation allowance. Based on the improved underlying performance of the business, the Company's forecast improved during fiscal 2016, which resulted in a full reversal of the Company's valuation allowance in the third quarter of fiscal 2016. The Company used a tax rate of 26.8% to calculate income tax recovery for the first quarter of fiscal 2017. On the basis of a full 52-week period, the Company does not expect to pay income tax, as non-capital loss carryforwards can be utilized to offset taxable income.

Net Loss Remained Flat Compared to Last Year

The Company recognized a net loss of \$9.0 million for the 13-week period ended July 2, 2016 (\$0.34 net loss per common share), compared to a net loss of \$9.0 million (\$0.35 net loss per common share) for the 13-week period ended June 27, 2015. As discussed above, selling, administrative, and other expenses were higher in the current period due to the prior year offset of the Company's one-time proceeds from disposal of a lease. Higher selling, administrative, and other expenses in the current period were partially offset by increased revenue at improved margin rates and higher income tax recovery.

Other Comprehensive Income

During the first quarter of fiscal 2017, the Company implemented a formal hedging policy to mitigate foreign exchange risk. During the 13-week period ended July 2, 2016, the Company entered into six forward contracts with a total notional amount of CAD \$43.1 million to buy U.S. dollars and sell Canadian dollars. These contracts were entered into in order to manage the currency fluctuation risk associated with a portion of forecasted U.S. dollar inventory receipts and have been designated as cash flow hedges for accounting purposes.

Accordingly, the effective portion of the change in the fair value of the forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income until inventory is received and recognized in future accounting periods. Associated gains and losses recognized in other comprehensive income will be included in the initial cost of inventory received.

As at July 2, 2016, the Company had three remaining foreign currency forward contracts in place, representing a total notional amount of CAD \$25.4 million, with maturities ranging from July 2016 to September 2016. The total fair value of these contracts as at July 2, 2016 is an unrealized net gain of \$0.2 million. During the 13-week period ended July 2, 2016, a net loss of \$0.1 million was reclassified from other comprehensive income to inventories.

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) attributable to shareholders of the Company, basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

(millions of Canadian dollars, except per share data)	Fiscal quarters							
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	Fiscal 2017	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2016	Fiscal 2015	Fiscal 2015	Fiscal 2015
Revenue	193.1	220.4	383.2	205.7	184.9	186.2	339.4	189.0
Total net earnings (loss)	(9.0)	(13.4)	52.8	(1.8)	(9.0)	(13.9)	33.0	(8.5)
Basic earnings (loss) per share	\$ (0.34)	\$ (0.51)	\$ 2.03	\$ (0.07)	\$ (0.35)	\$ (0.54)	\$ 1.28	\$ (0.33)
Diluted earnings (loss) per share	\$ (0.34)	\$ (0.51)	\$ 2.02	\$ (0.07)	\$ (0.35)	\$ (0.54)	\$ 1.27	\$ (0.33)

Overview of Consolidated Balance Sheets

Total Assets

As at July 2, 2016, total assets increased \$38.5 million to \$552.7 million, compared to \$514.2 million as at June 27, 2015. The increase was driven by increases in inventories, deferred tax assets, property, plant and equipment, and prepaid expenses. The inventories increase of \$11.7 million was driven by the impact of foreign exchange resulting from the continued weakness of the Canadian dollar. The \$10.6 million increase in deferred tax assets was driven by the previously discussed reversal of the Company's valuation allowance. The Company is also continuing to implement retail transformations and productivity initiatives, which drove the \$9.6 million increase in property, plant and equipment. Prepaid expenses increased by \$6.8 million primarily due to the timing of quarter end as the Company pre-paid various costs, such as rent, for the month of July.

On a fiscal year-to-date basis, total assets decreased by \$31.3 million to \$552.7 million compared to \$584.0 million as at April 2, 2016. The decrease was driven by a \$39.7 million reduction in cash and cash equivalents, which is consistent with the seasonal nature of the business. This reduction was partially offset by increases in accounts receivable and deferred tax assets. The \$4.1 million

increase in accounts receivable was driven by lease incentives related to store construction and renovations, while the \$3.0 million increase in deferred tax assets was due to the income tax recovery recognized in the current period.

Total Liabilities

As at July 2, 2016, total liabilities increased \$4.7 million to \$216.0 million, compared to \$211.3 million as at June 27, 2015. The increase was partly due to a \$3.1 million increase in unredeemed gift card liability, as gift card sales have increased compared to the same period last year. Current and long-term accounts payable and accrued liabilities also increased by \$2.4 million compared to the same period last year. This increase is consistent with the higher year-over-year inventory balance and is also partly due to the timing of quarter end.

On a fiscal year-to-date basis, total liabilities decreased \$24.0 million to \$216.0 million compared to \$240.0 million as at April 2, 2016. The decrease was primarily due to a \$25.0 million reduction in current and long-term accounts payable and accrued liabilities. Lower current and long-term accounts payable and accrued liabilities was driven by the timing of year-end bonus payments and vendor payments.

Total Equity

Total equity at July 2, 2016 increased \$33.9 million to \$336.7 million, compared to \$302.8 million as at June 27, 2015. The increase in total equity was driven by net earnings of \$28.6 million in the last four quarters. Share capital increased by \$4.4 million due to the exercise of stock options and Directors' deferred share units ("DSUs"). The \$0.7 million increase in contributed surplus was driven by fewer employee stock option forfeitures in the current year.

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 \$205.5 million as at July 2, 2016, compared to \$192.7 million as at June 27, 2015 and \$217.9 million as at April 2, 2016. The increase compared to the same period last year was driven by higher current assets. Notably, inventories increased by \$11.7 million, as previously discussed. The growth in current assets was partially offset by a \$4.5 million increase in current liabilities.

The Company's leverage position (defined as Total Liabilities to Total Equity) declined slightly to 0.6:1 compared to 0.7:1 as at June 27, 2015 and April 2, 2016 as total liabilities grew at a slower rate than total equity.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased \$39.7 million for the 13-week period ended July 2, 2016 compared to a decrease of \$26.5 million in the same period last year. The decrease in the current period was driven by cash flows used for operating activities of \$33.9 million and investing activities of \$6.8 million. These decreases were partially offset by cash generated from financing activities of \$1.0 million and the effect of foreign currency exchange rate changes on cash and cash equivalents of \$0.1 million.

Cash Flows Used for Operating Activities

The Company used cash flows of \$33.9 million for operating activities in the 13-week period ended July 2, 2016 compared to using \$22.9 million in the same period last year, an increase of \$11.0 million. The Company used \$28.7 million of cash for working capital this year compared to using \$21.6 million of cash for working capital in the same period last year, driven primarily by the timing of quarter end. The Company also used \$3.1 million of deferred tax assets in the current period but had no such usage in the same period last year due to the offset from the previously discussed valuation allowance.

Cash Flows Used for Investing Activities

The Company used cash flows of \$6.8 million for investing activities in the 13-week period ended July 2, 2016 compared to using \$3.4 million in the same period last year, an increase of \$3.4 million. This increase was driven by a \$3.7 million increase in capital asset additions compared to the same period last year. In the current period, the Company opened a new superstore and continued to implement transformational changes across its retail stores. The Company is also working on a number of back-end productivity initiatives, such as automation of its online distribution centre and implementation of a new product information management system. Distributions from the equity investment in Calendar Club were \$0.5 million in the current period. There were no such distributions in the same period last year.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	13-week period ended July 2, 2016	13-week period ended June 27, 2015
Construction, renovations, and equipment	4.9	2.0
Intangible assets (primarily application software and internal development costs)	2.0	1.4
Technology equipment	0.5	0.2
Total	7.4	3.6

Cash Flows from Financing Activities

The Company generated cash flows of \$1.0 million from financing activities in the 13-week period ended July 2, 2016 compared to generating \$0.1 million in the same period last year, an increase of \$0.9 million. The increase was driven by a greater number of option exercises in the current period. Option exercises generated \$0.8 million more in the current period compared to the same period last year.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates the majority of its revenue and cash flows during the December holiday season. The Company has minimal accounts receivable and a significant portion of book products are purchased on trade terms with the right to return. The Company's main sources of capital are cash flows generated from operations 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 2017. 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 requirements and debt service requirements for finance lease agreements. In addition, other factors not presently known to management could materially and adversely affect the Company'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 2016 Annual Report.

Accounting Standards Implemented in the First Quarter of Fiscal 2017

Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1 as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements and are effective for annual periods beginning on or after January 1, 2016. The implementation of these amendments did not have a significant impact on the Company's interim financial statements and the Company is currently assessing the impact to its annual disclosures.

New Accounting Pronouncements

Statement of Cash Flows (“IAS 7”)

In January 2016, the IASB issued amendments to IAS 7 as part of the IASB’s Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. The Company is assessing the impact of adopting these amendments 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, 2017.

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.

Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, “Leases.” IFRS 16 requires all leases to be reported on a company’s balance sheet and will provide greater transparency on companies’ leased assets and liabilities. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided the Company has also adopted IFRS 15. 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, 2019.

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 April 3, 2016 and ended on July 2, 2016 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 the Company 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 openings and closings, permanent relocation, and material changes in square footage. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, 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 July 2, 2016	13-week period ended June 27, 2015
Adjusted EBITDA	(6.1)	(2.1)
Depreciation of property, plant, and equipment	(3.9)	(3.6)
Amortization of intangible assets	(2.1)	(2.5)
Loss on disposal of capital assets	0.0	(0.7)
Interest expense	0.0	0.0
Interest income	0.5	0.4
Share of loss from joint venture	(0.5)	(0.5)
Loss before income taxes	(12.1)	(9.0)

Indigo Books & Music Inc.
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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 9th day of August, 2016.

Consolidated Balance Sheets

(Unaudited)

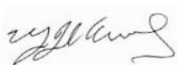
(thousands of Canadian dollars)	As at July 2, 2016	As at June 27, 2015	As at April 2, 2016
ASSETS			
Current			
Cash and cash equivalents (note 5)	176,790	176,711	216,488
Accounts receivable	11,800	13,370	7,663
Inventories (note 6)	217,232	205,528	217,788
Income taxes recoverable	25	25	25
Prepaid expenses	12,429	5,627	11,290
Derivative financial instruments (note 7)	245	—	—
Total current assets	418,521	401,261	453,254
Property, plant, and equipment	62,526	52,897	60,973
Intangible assets	16,344	15,536	16,506
Equity investment	473	219	1,421
Deferred tax assets	54,829	44,241	51,836
Total assets	552,693	514,154	583,990
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	147,703	145,599	171,112
Unredeemed gift card liability	51,545	48,470	50,969
Provisions	30	745	34
Deferred revenue	13,674	13,560	13,232
Current portion of long-term debt	33	144	53
Total current liabilities	212,985	208,518	235,400
Long-term accrued liabilities	2,919	2,661	4,483
Long-term provisions	102	99	109
Long-term debt	—	33	—
Total liabilities	216,006	211,311	239,992
Equity			
Share capital (note 8)	210,545	206,118	209,318
Contributed surplus (note 9)	10,874	10,170	10,591
Retained earnings	115,089	86,555	124,089
Accumulated other comprehensive income (note 7)	179	—	—
Total equity	336,687	302,843	343,998
Total liabilities and equity	552,693	514,154	583,990

See accompanying notes

On behalf of the Board:



Heather Reisman, Director



Michael Kirby, Director

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

	13-week period ended July 2, 2016	13-week period ended June 27, 2015
(thousands of Canadian dollars, except per share data)		
Revenue <small>(note 10)</small>	193,099	184,894
Cost of sales	(107,226)	(103,510)
Gross profit	85,873	81,384
Operating, selling, and administrative expenses <small>(note 10)</small>	(97,898)	(90,219)
Operating loss	(12,025)	(8,835)
Interest expense	(17)	(2)
Interest income	497	391
Share of loss from equity investment	(511)	(507)
Loss before income taxes	(12,056)	(8,953)
Income tax recovery	3,056	—
Net loss	(9,000)	(8,953)
Other comprehensive income <small>(note 7)</small>		
Items that are or may be reclassified subsequently to net earnings (loss):		
Net change in fair value of cash flow hedges (net of tax of \$35; 2016 — \$0)	95	—
Reclassification of net realized loss to inventory (net of tax of \$31; 2016 — \$0)	84	—
Other comprehensive income	179	—
Total comprehensive loss	(8,821)	(8,953)
Net loss per common share <small>(note 11)</small>		
Basic	\$ (0.34)	\$ (0.35)
Diluted	\$ (0.34)	\$ (0.35)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, March 28, 2015	205,871	9,770	95,508	–	311,149
Net loss	–	–	(8,953)	–	(8,953)
Exercise of options (note 8)	247	(43)	–	–	204
Share-based compensation (note 9)	–	332	–	–	332
Directors' compensation (note 9)	–	111	–	–	111
Other comprehensive income (note 7)	–	–	–	–	–
Balance, June 27, 2015	206,118	10,170	86,555	–	302,843
Balance, April 2, 2016	209,318	10,591	124,089	–	343,998
Net loss	–	–	(9,000)	–	(9,000)
Exercise of options (note 8)	1,227	(227)	–	–	1,000
Share-based compensation (note 9)	–	402	–	–	402
Directors' compensation (note 9)	–	108	–	–	108
Other comprehensive income (note 7)	–	–	–	179	179
Balance, July 2, 2016	210,545	10,874	115,089	179	336,687

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	13-week period ended July 2, 2016	13-week period ended June 27, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(9,000)	(8,953)
Add (deduct) items not affecting cash		
Depreciation of property, plant, and equipment	3,863	3,584
Amortization of intangible assets	2,131	2,454
Loss on disposal of capital assets	1	659
Share-based compensation (note 9)	402	332
Directors' compensation (note 9)	108	111
Deferred tax assets	(3,059)	—
Other	295	439
Net change in non-cash working capital balances (note 12)	(28,686)	(21,641)
Interest expense	17	2
Interest income	(497)	(391)
Interest taxes received	—	—
Share of loss from equity investment	511	507
Cash flows used for operating activities	(33,914)	(22,897)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(5,417)	(2,253)
Addition of intangible assets	(1,969)	(1,404)
Distributions from equity investment	437	—
Interest received	127	227
Cash flows used for investing activities	(6,822)	(3,430)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(20)	(51)
Interest paid	(15)	(17)
Proceeds from share issuances (note 8)	1,000	204
Cash flows from financing activities	965	136
Effect of foreign currency exchange rate changes on cash and cash equivalents	73	(260)
Net decrease in cash and cash equivalents during the period	(39,698)	(26,451)
Cash and cash equivalents, beginning of period	216,488	203,162
Cash and cash equivalents, end of period	176,790	176,711

See accompanying notes

Notes to the Interim Condensed Consolidated Financial Statements

July 2, 2016
(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 2016 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 2016 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13-week period ended July 2, 2016 (including comparatives) were approved by the Board of Directors on August 9, 2016.

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

Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1 as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements and are effective for annual periods beginning on or after January 1, 2016. The implementation of these amendments did not have a significant impact on the Company's interim financial statements and the Company is currently assessing the impact to its annual disclosures.

New Accounting Pronouncements

Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7 as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. The Company is assessing the impact of adopting these amendments 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, 2017.

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.

Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, “Leases.” IFRS 16 requires all leases to be reported on a company’s balance sheet and will provide greater transparency on companies’ leased assets and liabilities. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided the Company has also adopted IFRS 15. 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, 2019.

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 July 2, 2016 and June 27, 2015 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)	July 2, 2016	June 27, 2015	April 2, 2016
Cash	83,197	122,983	102,862
Restricted cash	3,483	3,340	3,460
Cash equivalents	90,110	50,388	110,166
Cash and cash equivalents	176,790	176,711	216,488

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 \$109.2 million for the 13-week period ended July 2, 2016 (2015 – \$105.2 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 \$1.6 million for the 13-week period ended July 2, 2016 (2015 – \$2.1 million), and there were no reversals of inventory write-downs that were recognized for the 13-week period ended July 2, 2016 (2015 – nil). The amount of inventory with net realizable value equal to cost was \$2.8 million as at July 2, 2016 (June 27, 2015 – \$2.1 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative financial instruments consist of foreign exchange forward contracts. These contracts were entered into in order to manage the currency fluctuation risk associated with a portion of forecasted U.S. dollar inventory receipts and have been designated as cash flow hedges for accounting purposes.

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. Furthermore, at inception and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk. 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 forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss) until inventory is received and recognized in future accounting periods. Associated gains and losses recognized in other comprehensive income (loss) will be included in the initial cost of inventory received. The fair value of the foreign exchange forward contracts is determined using the forward exchange rates at the measurement date, with the resulting value discounted back to present values. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of earnings (loss).

During the 13-week period ended July 2, 2016, the Company entered into six forward contracts with a total notional amount of CAD \$43.1 million to buy U.S. dollars and sell Canadian dollars. As at July 2, 2016, the Company had three remaining foreign currency forward contracts in place, representing a total notional amount of CAD \$25.4 million (June 27, 2015 – no forward contracts). These contracts have maturities ranging from July 2016 to September 2016.

The total fair value of these contracts as at July 2, 2016 is an unrealized net gain of \$0.2 million (June 27, 2015 – no forward contracts); the carrying value of the derivative financial instruments is equivalent to the pre-tax unrealized gain at period end. During the 13-week period ended July 2, 2016, a net loss of \$0.1 million (2015 – nil) was reclassified from other comprehensive income to inventories. All cash flow hedges were fully effective for the 13-week period ended July 2, 2016.

8. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended July 2, 2016		13-week period ended June 27, 2015		53-week period ended April 2, 2016	
	Number of shares	Amount C\$ (thousands)	Number of shares	Amount C\$ (thousands)	Number of shares	Amount C\$ (thousands)
Balance, beginning of period	25,797,351	209,318	25,495,289	205,871	25,495,289	205,871
Issued during the period						
Directors' deferred share units converted	–	–	–	–	29,142	291
Options exercised	95,600	1,227	25,250	247	272,920	3,156
Balance, end of period	25,892,951	210,545	25,520,539	206,118	25,797,351	209,318

9. SHARE-BASED COMPENSATION

As at July 2, 2016, 1,662,400 stock options were outstanding with exercise prices ranging from \$8.00 to \$16.70. Of these outstanding stock options, 734,375 were exercisable. As at June 27, 2015, there were 1,533,425 stock options outstanding of which 553,695 were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13-week period ended July 2, 2016, the pre-forfeiture fair value of options granted was \$0.1 million (2015 – no options granted).

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

	13-week period ended July 2, 2016
Black-Scholes option pricing assumptions	
Risk-free interest rate	0.7%
Expected volatility	33.0%
Expected time until exercise	3.0 years
Expected dividend yield	–
Other assumptions	
Forfeiture rate	27.8%

Directors' Compensation

The Company has established a Directors' Deferred Share Unit Plan ("DSU Plan"). Under the DSU Plan, Directors annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred share units ("DSUs") or receive up to 50% of this compensation in cash. All compensation during the 13-week period ended July 2, 2016 was in the form of DSUs.

The number of shares reserved for issuance under this plan is 500,000. The Company issued 6,381 DSUs with a value of \$0.1 million during the 13-week period ended July 2, 2016 (2015 – 10,944 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 July 2, 2016 was \$3.9 million (June 27, 2015 – \$3.8 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.

10. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

	13-week period ended July 2, 2016	13-week period ended June 27, 2015
Print ¹	121,124	121,455
General merchandise ²	65,800	56,515
eReading ³	2,464	3,454
Other ⁴	3,711	3,470
Total	193,099	184,894

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 July 2, 2016	13-week period ended June 27, 2015
Wages, salaries, and bonuses	40,880	39,215
Short-term benefits expense	5,107	4,876
Termination benefits expense	499	386
Retirement benefits expense	386	335
Share-based compensation	402	332
Total employee benefits expense	47,274	45,144

Termination benefits arise when the Company terminates certain employment agreements.

11. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the Company reported a loss and, therefore, were not included in the July 2, 2016 and June 27, 2015 diluted loss per share calculations.

12. STATEMENTS OF CASH FLOWS

Supplemental year-to-date cash flow information:

(thousands of Canadian dollars)	13-week period ended July 2, 2016	13-week period ended June 27, 2015
Accounts receivable	(4,137)	(8,474)
Inventories	556	2,867
Income taxes recoverable	—	—
Prepaid expenses	(1,139)	(150)
Accounts payable and accrued liabilities (current and long-term)	(24,973)	(16,226)
Unredeemed gift card liability	576	259
Provisions (current and long-term)	(11)	(179)
Deferred revenue	442	262
Net change in non-cash working capital balances	(28,686)	(21,641)

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 July 2, 2016	13-week period ended June 27, 2015
Wages, salaries, and bonus	1,356	1,227
Short-term benefits expense	40	50
Termination benefits expense	—	—
Retirement benefits expense	14	16
Share-based compensation	182	188
Directors' compensation	108	111
Total remuneration	1,700	1,592

Transactions with Shareholders

During the 13-week period ended July 2, 2016, 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. For the 13-week period ended July 2, 2016, the Company paid \$1.0 million for these goods and services (2015 — \$0.6 million). As at July 2, 2016, Indigo had less than \$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 27, 2015 — \$0.1 million 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 10.

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 that 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 July 2, 2016 was \$2.5 million paid by Indigo (2015 – \$2.5 million paid by Indigo).

Investor Information

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Toronto Stock Exchange

Trading Symbol

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