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"THE FUTURE BELONGS TO THOSE WHO BELIEVE IN THE BEAUTY OF THEIR DREAMS."

– ELEANOR ROOSEVELT

FIRST QUARTER REPORT
FOR THE 13-WEEK PERIOD
ENDED JUNE 30, 2018

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 7, 2018 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 30, 2018 and July 1, 2017. The Company's unaudited interim condensed consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." Except as noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2018 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 31, 2018 and the MD&A included in the Company's fiscal 2018 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 and offering online sales through the *indigo.ca* website and the Company's mobile applications. As at June 30, 2018, the Company operated 85 superstores under the banners *Chapters* and *Indigo* and 121 small format stores under the banners *Coles*, *Indigospirit* and *The Book Company*.

The Company 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 is also comprised of its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its equity investments in Unplug Meditation, LLC ("Unplug").

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, its suppliers, and its employees.

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 30, 2018**	**% Revenue**	13-week period ended July 1, 2017[2]	% Revenue
Revenue	**205.4**	**100.0**	206.4	100.0
Cost of sales	**(117.5)**	**57.2**	(112.4)	54.5
Cost of operations	**(74.1)**	**36.1**	(68.1)	33.0
Selling, administrative, and other expenses	**(27.1)**	**13.2**	(25.7)	12.5
Adjusted EBITDA[1]	**(13.3)**	**6.5**	0.2	0.1
Amortization and other related capital charges	**(7.6)**	**3.7**	(7.2)	3.4
Net interest income	**0.8**	**0.4**	0.6	0.3
Earnings from equity investments	**(0.6)**	**0.3**	(0.6)	0.3
Losses before income taxes	**(20.7)**	**10.1**	(7.0)	3.4

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

2 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 3 of the condensed interim consolidated financial statements for additional information.

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies. Earnings (loss) before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

Revenue

Total consolidated revenue for the 13-week period ended June 30, 2018 decreased $1.0 million or 0.5% to $205.4 million from $206.4 million for the 13-week period ended July 1, 2017. Lower revenue was driven by a one-time revenue adjustment from unredeemed gift cards ("gift card breakage") of $3.8 million in the prior period, as a result of a change in accounting estimates. Total comparable sales, which includes online sales, increased by 2.4% for the first quarter. Comparable retail superstore sales for the quarter increased 0.2%, while small format stores increased 0.76%. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are based on a 52-week fiscal year and defined as sales generated by

stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocations and material changes in square footage. Both measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Online revenue increased by $3.8 million or 12.7% to $33.8 million for the 13-week period ended June 30, 2018 compared to $30.0 million in the same period last year. Online sales continued to grow across all categories, in both print and general merchandise, with highly successful promotion campaigns driving a meaningful increase in e-commerce traffic and average order value.

Retail revenue decreased by $2.6 million or 1.5% to $166.2 million for the 13-week period ended June 30, 2018 compared to $168.8 million in the same period last year. This decline in revenue was primarily driven by lost sales in a number of stores undergoing renovations and the closure of a few low performing stores as the Company transforms its retail operations. During the 13-week period ended June 30, 2018, the Company was in the process of renovating nine stores and finished renovations in two superstores.

Revenue from other sources includes café revenue, irewards card sales, gift card breakage, revenue from unredeemed plum points ("plum breakage"), corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources decreased $2.2 million or 28.9% to $5.4 million for the 13-week period ended June 30, 2018 compared to $7.6 million in the same period last year primarily driven by gift card breakage. In fiscal 2018, management recognized one-time revenue of $3.8 million related to gift card breakage due to a change in accounting estimates to reflect changes in customer redemption patterns. Management will continue to monitor redemption activity and will adjust for changes as observed.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017[1]	% increase	Comparable sales % increase
Superstores	**138.4**	141.7	(2.3)	0.2
Small format stores	**27.8**	27.1	2.6	0.8
Online (including store kiosks)	**33.8**	30.0	12.7	12.7
Other	**5.4**	7.6	(28.9)	N/A
Total	**205.4**	206.4	(0.5)	2.4

[1] Revenue was restated as a result of IFRS 15 adjustments. Refer to Note 3 of the condensed interim consolidated financial statements for additional information.

Revenue by product line is as follows:

	13-week period ended June 30, 2018	13-week period ended July 1, 2017
Print[1]	**57.6%**	59.1%
General merchandise[2]	**39.8%**	37.2%
Other[3]	**2.6%**	3.7%
Total	**100.0%**	100.0%

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

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017
Total retail store revenue	**166.2**	168.8
Total online revenue	**33.8**	30.0
Adjustments for stores not in both fiscal periods	**(16.3)**	(19.4)
Total comparable sales	**183.7**	179.4

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017
Total revenue by format	**138.4**	141.7	**27.8**	27.1
Adjustments for stores not in both fiscal periods	**(15.0)**	(18.6)	**(1.3)**	(0.8)
Comparable retail store sales	**123.4**	123.1	**26.5**	26.3

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased $5.1 million to $117.5 million for the 13-week period ended June 30, 2018, compared to $112.4 million for the same period last year. As a percent of total revenue, cost of sales increased 2.7% to 57.2% compared to 54.5% for the same period last year. This increase was driven both by a higher proportion of lower margin online sales and the associated online shipping costs, and deeper discounting compared to the same period last year. Improvements in the Company's online fulfillment capabilities in the past year allowed for larger

scale promotional campaigns in the Online channel. Coupled with clearance markdowns to move through unproductive inventory, these activities resulted in downward pressure on margin.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased $6.0 million to $74.1 million for the 13-week period ended June 30, 2018, compared to $68.1 million for the same period last year. Operating costs increased primarily due to increased sales volumes in the Online channel, expansion of the Company's Online facility in Ontario in fiscal 2018, and investment in a new distribution facility in Western Canada to support growth. The Company will continue to incur disproportionate costs in these distribution centres until both facilities are fully utilized and optimized for efficiencies. Additionally, higher minimum wage in Ontario had an impact on labour costs in stores and distribution facilities. As a percent of total revenue, cost of operations increased by 3.1% to 36.1% this year, compared to 33.0% for the same period last year.

Selling, Administrative, and Other Expenses

Selling, administrative, and other expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses increased $1.3 million to $27.1 million for the 13-week period ended June 30, 2018, compared to $25.8 million for the same period last year. As a percent of total revenue, selling, administrative, and other expenses increased by 0.7% to 13.2%, compared to 12.5% for the same period last year. Higher expenses in the current year were driven by accelerated investments in strategic initiatives to transform the Company's retail and digital platforms.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment decreased $13.4 million to a loss of $13.5 million for the 13-week period ended June 30, 2018, compared to earnings of $0.2 million for the same period last year. Adjusted EBITDA as a percent of revenue decreased by 6.6% to a loss of 6.5% this year compared to 0.1% for the same period last year. Lower adjusted EBITDA was partly driven by the impact of the previously discussed $3.8 million one-time gift card breakage adjustment in the prior year. Lower adjusted EBITDA was driven by higher discounting, higher costs at the expanded distribution facilities, the increase in minimum wage in Ontario, and other investments in

transformational initiatives. A reconciliation of adjusted EBITDA to net earnings (loss) before taxes has been included in the "Non-IFRS Financial Measures" section of Management's Discussion and Analysis.

Capital Assets

Depreciation and amortization for the 13-week period ended June 30, 2018 increased by $1.0 million to $7.3 million compared to $6.3 million for the same period last year. Capital expenditures in the first quarter of fiscal 2019 totaled $22.9 million compared to $7.6 million for the same period last year. Capital expenditure increases in the current period were driven by the continued implementation of changes across Indigo's retail outlets, including full renovations and rebranding of stores, as well as investments in digital and supply chain. Capital expenditures for the first quarter of fiscal 2019 included $16.6 million for retail store renovations and equipment, $1.1 million for technology equipment, and $5.2 million primarily for application software and internal development costs. None of the capital expenditures were financed through leases.

Net Interest Income

The Company recognized net interest income of $0.8 million for the 13-week period ended June 30, 2018, compared to $0.6 million for the same period last year. The Company nets interest income against interest expense. Compared to the same period last year, the Company generated more interest income by maintaining a cash balance in short-term investments that earn higher interest income.

Loss from Equity Investments

The Company uses the equity method to account for its investments in Calendar Club and Unplug. The Company recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses. Calendar Club is primarily a seasonal operation that is dependent on the November/December holiday sales season to generate revenue while Unplug generates year-round revenue. The Company recognized a net loss from Calendar Club of $0.6 million for the 13-week period ended June 30, 2018, consistent with the net loss of $0.6 million recognized for the same period last year. Earnings from Unplug were immaterial for the 13-week period ended June 30, 2018.

Income Taxes

The Company recognized a non-cash income tax tax recovery of $5.3 million for the 13-week period ended June 30, 2018, compared to recognizing a non-cash income tax recovery of $1.7 million for the same period last year. The Company's

income tax recoveries are related to an increase in its deferred tax assets, which was driven by the net loss during the period. The Company used a tax rate of 26.86% to calculate the income tax recovery for the first quarter of fiscal 2019. Based on a full 52-week period, the Company does not expect to pay cash income taxes as it has sufficient non-capital loss carry forwards to offset anticipated taxable income.

Net Loss

The Company recognized a net loss of $15.4 million for the 13-week period ended June 30, 2018 ($0.57 net loss per common share), compared to a net loss of $5.3 million ($0.20 net loss per common share) for the same period last year. The decrease in net earnings was driven by the decline in top-line revenue, higher distribution costs due to increased online volumes and supply chain investment, as well as the impact of legislated minimum wage increases in Ontario. A change in accounting estimates for breakage in the prior year also contributed to earnings decline.

Other Comprehensive Income

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

During the 13-week period ended June 30, 2018, the Company entered into contracts with total notional amounts of C$52.0 million to buy U.S. dollars and sell Canadian dollars. In the same period last year, the Company entered into contracts with total notional amounts of C$62.4 million. As at June 30, 2018, the Company had remaining contracts in place representing a total notional amount of C$99.1 million and an unrealized net gain of $3.1 million, compared to a total notional amount of C$104.2 million and an unrealized net loss of $2.3 million as at July 1, 2017. During the 13-week period ended June 30, 2018, a net gain of $0.1 million from settled contracts was reclassified from other comprehensive income to inventory and expenses, consistent with a reclassified net gain of $0.1 million for the same period last year.

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 November/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), basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

	Fiscal quarters[1]							
(millions of Canadian dollars, except per share data)	**Q1 Fiscal 2019**	Q4 Fiscal 2018	Q3 Fiscal 2018	Q2 Fiscal 2018	Q1 Fiscal 2018	Q4 Fiscal 2017	Q3 Fiscal 2017	Q2 Fiscal 2017
Revenue	**205.4**	215.4	433.3	224.6	206.4	209.6	400.4	217.0
Total net earnings (loss)	**(15.4)**	(10.7)	42.6	(4.6)	(5.3)	(8.9)	40.0	(1.2)
Basic earnings (loss) per share	**($0.57)**	($0.40)	$1.58	($0.18)	($0.20)	($0.33)	$1.51	($0.04)
Diluted earnings (loss) per share	**($0.57)**	($0.40)	$1.56	($0.18)	($0.20)	($0.33)	$1.48	($0.04)

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 3 of the condensed interim consolidated financial statements for additional information.

Overview of Consolidated Balance Sheets

Assets

As at June 30, 2018, total assets increased $6.9 million to $601.5 million, compared to $594.6 million as at July 1, 2017. The increase was primarily driven by higher inventory, property plant and equipment and intangible assets, largely offset by a decrease in cash, cash equivalents and short term investments and in deferred tax assets. Inventory increased by $15.4 million based on growth in sales over the past year. The increase in property, plant and equipment of $28.1 million and in intangible assets of $12.1 million was driven by investment in retail store renovations, distribution facilities, digital initiatives and software and internal development costs to support strategic initiatives. Cash, cash equivalents and short term investments decreased $41.8 million as cash was used to fund capital investment and operating activities. The deferred tax assets decreased by $5.9 million as a result of deferred tax assets applied during the past year to offset the Company's estimated tax expense, which was partially offset by the non-cash income tax recovery recognized in the current period.

On a fiscal year-to-date basis, total assets decreased by $32.9 million to $601.5 million compared to $634.4 million as at March 31, 2018. The decrease was driven by a $55.3 million decrease in cash and cash equivalents, which is

consistent with the seasonal nature of the business and the higher cash balances used for operating and investing activities. This reduction was partially offset by the increase in property, plant and equipment and deferred tax assets. Property, plant and equipment increased by $12.4 million as further capital investments were made during the period for store renovations and other strategic initiatives. The deferred tax assets increased $4.9 million relating to the net loss recognized during the period.

Liabilities

As at June 30, 2018, total liabilities decreased $16.2 million to $211.3 million, compared to $227.5 million as at July 1, 2017. This decrease was driven by a $5.7 million decrease in current accounts payable and accrued liabilities due to timing differences. This was furthered by a $4.6 million reduction in unredeemed gift card liability and a $4.4 million reduction in deferred revenue related to plum liability, which were primarily driven by changes in accounting estimates in fiscal 2018 as a result of subtle changes in historic redemption patterns.

On a fiscal year-to-date basis, total liabilities decreased $20.3 million to $211.3 million compared to $231.6 million as at March 31, 2018. The decrease was primarily driven by a $18.2 million decrease in accounts payable and accrued liabilities consistent with the discussed decrease in cash.

Equity

Total equity at June 30, 2018 increased $23.0 million to $390.2 million, compared to $367.2 million as at July 1, 2017. Over the last four quarters, the Company generated net earnings of $11.9 million and had a $6.3 million increase in share capital, due to the exercise of stock options. Accumulated other comprehensive income also increased by $4.0 million from the unrealized gains on the Company's foreign currency hedge portfolio.

The weighted average number of common shares outstanding for the first quarter of fiscal 2019 was 27,124,594 compared to 26,673,402 for the same period last year. As at August 7, 2018, the number of outstanding common shares was 26,948,274 with a book value of $223.4 million.

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 $227.2 million as at June 30, 2018, compared to $237.4 million as at July 1, 2017 and $258.8 million as at March 31, 2018. The decrease in working capital compared to the same period last year was a result of both lower current assets and current liabilities. This was primarily driven by short-term investments of $40.0 million that were not reinvested on maturity, partially offset by an increase in inventory, a decrease in accounts payable and a reduction in unredeemed gift card liability and deferred revenue as previously discussed.

The Company's leverage position (defined as Total Liabilities to Total Equity) decreased to 0.5:1 as at June 30, 2018 compared to 0.6:1 as at July 1, 2017 and March 31, 2018.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $55.3 million for the 13-week period ended June 30, 2018 compared to a decrease of $33.8 million in the same period last year. The decrease in the current period was driven by cash used for operating activities of $34.5 million and investing activities of $21.6 million. This decrease was partially offset by cash flows generated from financing activities of $0.7 million.

Cash Flows Used for Operating Activities

The Company used cash flows of $34.5 million for operating activities in the 13-week period ended June 30, 2018 compared to using $24.2 million in the same period last year, an increase of $10.3 million. The increase was primarily driven by the net loss for the quarter. The Company used $21.6 million of cash for working capital this year compared to using $25.7 million of cash in the same period last year, primarily as a result of a net decrease in inventory on hand in the 13-week period ended June 30, 2018 compared to a net increase in the Company's inventory position experienced in the same period last year, partially offset by a decrease in accounts payables as previously discussed.

Cash Flows Used for Investing Activities

The Company used cash flows of $21.6 million for investing activities in the 13-week period ended June 30, 2018 compared to using $9.4 million in the same period last year, an increase of $12.2 million. The increase was driven by the $17.8 million capital investment made in property, plant and equipment and $5.2 million investment made in intangible assets, which is consistent with previously discussed strategic initiatives.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017
Construction, renovations, and equipment	**16.6**	4.4
Intangible assets (primarily application software and internal development costs)	**5.2**	1.7
Technology equipment	**1.1**	1.5
Total	**22.9**	7.6

Cash Flows from Financing Activities

The Company generated cash flows of $0.7 million from financing activities in the 13-week period ended June 30, 2018 compared to generating $0.3 million in the same period last year, an increase of $0.4 million. The variance was driven by higher cash proceeds received from option exercises in the current period.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates a significant portion of its revenue and cash flows during the November/December holiday season. The Company has minimal accounts receivable and a majority 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, cash and cash equivalents, and short-term investments.

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position and future cash flows generated from operations to be sufficient to meet its working capital needs for fiscal 2019. In addition, the Company has the ability to reduce capital spending if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the unaudited interim condensed consolidated financial statements which have been prepared in accordance with IAS 34. The preparation of these unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues,

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

Material judgments and estimates are made with respect to: 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; unprocessed online returns; 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, except as noted. The significant accounting policies and significant judgments and estimates of the Company are described in notes 3 and 4 of the consolidated financial statements contained in the Company's fiscal 2018 Annual Report.

Accounting Standards Implemented in the First Quarter of Fiscal 2019

Revenue from Contracts with Customers ("IFRS 15")

Effective in the first quarter of fiscal 2019, the Company adopted IFRS 15, which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations.

The Company adopted the standard on April 1, 2018, applying the requirements using the full retrospective transition method. The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements other than on the Company's recognition of deferred loyalty program revenue and its sales return allowance.

Under IAS 18, loyalty revenue was allocated to plum points using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was deferred until the points were actually redeemed while the residual consideration was allocated to the goods sold and recognized as revenue. IFRS 15 stipulates that revenue will be allocated based on relative standalone selling prices between loyalty points and the goods on which points were earned. Using this relative fair value approach, the amount allocated to the

loyalty points and recorded as deferred revenue will be lower than the amounts allocated under the residual value method.

Under IAS 18, sales return allowance on the consolidated balance sheets was recognized on a net basis with no adjustment to current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the balance sheet line items noted below. As the impact of adoption is limited to these financial statement line items, an April 2, 2017 opening balance sheet has not been presented.

The impacts on the Company's balance sheets as at March 31, 2018 and July 1, 2017 are as follows:

(thousands of Canadian dollars)	Balance at March 31, 2018	IFRS 15 Adjustment	**Adjusted March 31, 2018**	Balance at July 1, 2017	IFRS 15 Adjustment	Adjusted July 1, 2017
Assets						
Other assets	–	865	**865**	–	794	794
Liabilities						
Accounts payable and accrued liabilities	176,479	865	**177,344**	163,975	794	164,769
Deferred revenue	8,807	(1,778)	**7,029**	13,201	(1,624)	11,577
Equity						
Retained earnings	166,807	1,778	**168,585**	139,706	1,624	141,330

The impact on the Company's statement of loss for the 13-week period ended July 1, 2017 is as follows:

(thousands of Canadian dollars)	13-week period ended July 1, 2017	IFRS 15 Adjustment	Adjusted 13-week period ended July 1, 2017
Revenue	206,318	39	206,357
Cost of sales	112,449	–	112,449
Gross profit	93,869	39	93,908

The implementation of IFRS 15 had a nominal impact on earnings per share for the comparative periods.

Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 during the first quarter of fiscal 2019, which replaces IAS 39 "Financial Instruments: Recognition and Measurement." The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting.

The classification and measurement approach for financial assets and liabilities under IFRS 9 reflects the business model in which assets are managed and their cash flow characteristics. While the new approach results in changes to classification categories, there were no consequential measurement changes to the Company's financial instruments on adoption.

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to12-month expected credit losses, or life time expected credit losses if there has been a significant increase in the credit risk on the instrument. The Company has determined that the adoption of IFRS 9 has not resulted in any additional impairment allowance for the 13-week period ended June 30, 2018.

IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in the Company's 2018 Annual Report, Note 21 "Financial Risk Management" and in this Quarterly Report, Note 7 "Derivative Financial Instruments". The Company's hedging relationships in place as at March 30, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements.

The Company has applied IFRS 9 retrospectively, with the initial application date of April 1, 2018. As permitted by the transitional provisions of the standard, the Company elected not to restate comparative figures or note disclosures. Apart from the aforementioned hedge accounting considerations, there was no material impact to the Company's consolidated financial statements.

New Accounting Pronouncements

Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, "Leases." IFRS 16 introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. The new lessee accounting model requires substantially all leases to be reported on a company's balance sheet and will provide greater transparency on companies' leased assets and liabilities. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. While the Company is still assessing the impact of adopting this standard on its consolidated financial statements, the recognition

of certain leases is expected to have a material impact on the Company's Consolidated Balance Sheets.

The new standard will apply for annual periods beginning on or after January 1, 2019. The Company plans to apply this standard beginning March 31, 2019. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients available under the standard.

Disclosure Controls and Procedures

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures.

Internal Controls over Financial Reporting

Management is 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 International Financial Reporting Standards.

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 1, 2018 and ended on June 30, 2018 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 unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). To provide additional insight into the business, the Company has also provided non-IFRS data, including comparable sales and adjusted EBITDA, in the discussion and analysis section above. These measures are specific to Indigo and have no standardized meaning prescribed by IFRS. Therefore, these measures may not be comparable to similar measures presented by other companies.

Total comparable sales (including online), comparable retail store sales, and adjusted EBITDA are key indicators used by the Company to measure performance against internal targets and prior period results. These measures

are commonly used by financial analysts and investors to compare the Company to other retailers.

Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are based on a 52-week fiscal year and defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocation, and material changes in square footage. Both measures are key performance indicators for the Company. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investments. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

Reconciliations between total comparable sales, comparable retail store sales, and revenue (the most comparable IFRS measure) were 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 30, 2018**	13-week period ended July 1, 2017[1]
Adjusted EBITDA	**(13.3)**	0.2
Depreciation of property, plant, and equipment	**(5.1)**	(4.4)
Amortization of intangible assets	**(2.2)**	(2.0)
Loss on disposal of capital assets	**(0.3)**	(0.8)
Net interest income	**0.8**	0.6
Share of losses from equity investments	**(0.6)**	(0.6)
Loss before income taxes	**(20.7)**	(7.0)

[1] Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 3 of the interim condensed consolidated financial statements for additional information.

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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

Hugues Simard
Chief Financial Officer

Dated as of the 7th day of August, 2018.

Consolidated Balance Sheets

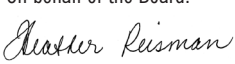
(Unaudited)

(thousands of Canadian dollars)	**As at June 30, 2018**	As at July 1, 2017[1]	As at March 31, 2018[1]
ASSETS			
Current			
Cash and cash equivalents (note 5)	**94,907**	96,661	150,256
Short-term investments (note 5)	**60,000**	100,000	60,000
Accounts receivable	**12,370**	9,645	6,747
Inventories (note 6)	**257,718**	242,287	264,586
Prepaid expenses	**6,845**	13,686	4,124
Derivative assets (note 7)	**3,216**	–	1,439
Other assets (note 3)	**922**	794	865
Total current assets	**435,978**	463,073	488,017
Property, plant, and equipment	**94,708**	66,592	82,314
Intangible assets	**27,184**	15,110	24,215
Equity investments	**3,163**	3,459	4,330
Deferred tax assets	**40,431**	46,372	35,563
Total assets	**601,464**	594,606	634,439
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities (note 3)	**159,111**	164,769	177,344
Unredeemed gift card liability	**42,027**	46,584	44,218
Provisions	**160**	110	166
Deferred revenue (note 3)	**7,180**	11,577	7,029
Income taxes payable	**152**	360	152
Derivative liabilities (note 7)	**106**	2,292	327
Total current liabilities	**208,736**	225,692	229,236
Long-term accrued liabilities	**2,472**	1,719	2,283
Long-term provisions	**45**	44	45
Total liabilities	**211,253**	227,455	231,564
Equity			
Share capital (note 9)	**222,699**	216,359	221,854
Contributed surplus (note 10)	**12,041**	11,141	11,621
Retained earnings (note 3)	**153,196**	141,330	168,585
Accumulated other comprehensive income (loss) (note 7)	**2,275**	(1,679)	815
Total equity	**390,211**	367,151	402,875
Total liabilities and equity	**601,464**	594,606	634,439

See accompanying notes

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

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 30, 2018**	13-week period ended July 1, 2017[1]
Revenue (note 11)	**205,376**	206,357
Cost of sales	**(117,463)**	(112,449)
Gross profit	**87,913**	93,908
Operating, selling, and administrative expenses (note 11)	**(108,788)**	(100,901)
Operating loss	**(20,875)**	(6,993)
Net interest income	**810**	597
Share of loss from equity investments	**(639)**	(573)
Loss before income taxes	**(20,704)**	(6,969)
Income tax recovery	**5,315**	1,707
Net loss	**(15,389)**	(5,262)
Other comprehensive income (loss) (note 7)		
Items that are or may be reclassified subsequently to net earnings (loss):		
Net change in fair value of cash flow hedges (net of taxes of (554); 2017 – 667)	**1,505**	(1,826)
Reclassification of net realized loss (net of taxes of 16; 2017 – 17)	**(45)**	(48)
Other comprehensive income (loss)	**1,460**	(1,874)
Total comprehensive loss	**(13,929)**	(7,136)
Net loss per common share (note 12)		
Basic	**($0.57)**	($0.20)
Diluted	**($0.57)**	($0.20)

See accompanying notes

[1] Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings[1]	Accumulated Other Comprehensive Income	Total Equity[1]
Balance, April 1, 2017	215,971	10,671	146,592	195	373,429
Net loss	–	–	(5,262)	–	(5,262)
Exercise of options (note 9)	388	(63)	–	–	325
Share-based compensation (note 10)	–	434	–	–	434
Directors' compensation (note 10)	–	99	–	–	99
Other comprehensive loss (note 7)	–	–	–	(1,874)	(1,874)
Balance, July 1, 2017	216,359	11,141	141,330	(1,679)	367,151
Balance, March 31, 2018	**221,854**	**11,621**	**168,585**	**815**	**402,875**
Net loss	**–**	**–**	**(15,389)**	**–**	**(15,389)**
Exercise of options (note 9)	**845**	**(158)**	**–**	**–**	**687**
Share-based compensation (note 10)	**–**	**489**	**–**	**–**	**489**
Directors' compensation (note 10)	**–**	**89**	**–**	**–**	**89**
Other comprehensive income (note 7)	**–**	**–**	**–**	**1,460**	**1,460**
Balance, June 30, 2018	**222,699**	**12,041**	**153,196**	**2,275**	**390,211**

See accompanying notes

[1] Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017[1]
CASH FLOWS USED FOR OPERATING ACTIVITIES		
Net loss	**(15,389)**	(5,262)
Adjustments to reconcile net losses to cash flows used for operating activities		
Depreciation of property, plant, and equipment	**5,127**	4,368
Amortization of intangible assets	**2,192**	1,907
Loss on disposal of capital assets	**240**	–
Share-based compensation (note 10)	**489**	434
Directors' compensation (note 10)	**89**	99
Deferred tax assets	**(5,406)**	(1,707)
Disposal of assets held for sale (note 8)	**–**	1,037
Other	**(81)**	674
Net change in non-cash working capital balances (note 13)	**(21,623)**	(25,692)
Interest expense	**3**	2
Interest income	**(813)**	(599)
Share of earnings from equity investments	**639**	573
Cash flows used for operating activities	**(34,533)**	(24,166)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	**(17,757)**	(5,882)
Addition of intangible assets	**(5,165)**	(1,745)
Distribution from equity investments	**528**	434
Interest received	**813**	443
Investment in associate	**–**	(2,666)
Cash flows used for investing activities	**(21,581)**	(9,416)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issuances (note 9)	**688**	325
Cash flows from financing activities	**688**	325
Effect of foreign currency exchange rate changes on cash and cash equivalents	**77**	(520)
Net decrease in cash and cash equivalents during the period	**(55,349)**	(33,777)
Cash and cash equivalents, beginning of period	**150,256**	130,438
Cash and cash equivalents, end of period	**94,907**	96,661

See accompanying notes

[1] Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

Notes to Consolidated Financial Statements

June 30, 2018
(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 consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with equity investments in Calendar Club of Canada Limited Partnership ("Calendar Club"), and Unplug Meditation, LLC ("Unplug"). 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 2018 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 2018 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13-week period ended June 30, 2018 (including comparatives) were approved by the Board of Directors on August 7, 2018.

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; unprocessed online returns; 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

These interim unaudited condensed consolidated financial statements have been prepared using the accounting policies as outlined in note 4 of the fiscal 2018 Annual Report, with the exception of the accounting standards adopted in the year ending March 31, 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Changes to significant accounting policies are described below.

Revenue from Contracts with Customers ("IFRS 15")

Effective in the first quarter of fiscal 2019, the Company adopted IFRS 15, which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations.

The Company adopted the standard on April 1, 2018, applying the requirements using the full retrospective transition method. The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements other than on the Company's recognition of deferred loyalty program revenue and its sales return allowance.

Under IAS 18, loyalty revenue was allocated to plum points using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was deferred until the points were actually redeemed while the residual consideration was allocated to the goods sold and

recognized as revenue. IFRS 15 stipulates that revenue will be allocated based on relative standalone selling prices between loyalty points and the goods on which points were earned. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be lower than the amounts allocated under the residual value method.

Under IAS 18, sales return allowance on the consolidated balance sheets was recognized on a net basis with no adjustment to current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the balance sheet line items noted below. As the impact of adoption is limited to these financial statement line items, an April 2, 2017 opening balance sheet has not been presented.

The impacts on the Company's balance sheets as at March 31, 2018 and July 1, 2017 are as follows:

(thousands of Canadian dollars)	Balance at March 31, 2018	IFRS 15 Adjustment	**Adjusted March 31, 2018**	Balance at July 1, 2017	IFRS 15 Adjustment	Adjusted July 1, 2017
Assets						
Other assets	–	865	**865**	–	794	794
Liabilities						
Accounts payable and accrued liabilities	176,479	865	**177,344**	163,975	794	164,769
Deferred revenue	8,807	(1,778)	**7,029**	13,201	(1,624)	11,577
Equity						
Retained earnings	166,807	1,778	**168,585**	139,706	1,624	141,330

The impact on the Company's statement of loss for the 13-week period ended July 1, 2017 is as follows:

(thousands of Canadian dollars)	13-week period ended July 1, 2017	IFRS 15 Adjustment	Adjusted 13-week period ended July 1, 2017
Revenue	206,318	39	206,357
Cost of sales	112,449	–	112,449
Gross profit	93,869	39	93,908

The implementation of IFRS 15 had a nominal impact on earnings per share for the comparative periods.

Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 during the first quarter of fiscal 2019, which replaces IAS 39 "Financial Instruments: Recognition and Measurement." The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting.

The classification and measurement approach for financial assets and liabilities under IFRS 9 reflects the business model in which assets are managed and their cash flow characteristics. While the new approach results in changes to classification categories, there were no consequential measurement changes to the Company's financial instruments on adoption.

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to12-month expected credit losses, or life time expected credit losses if there has been a significant increase in the credit risk on the instrument. The Company has determined that the adoption of IFRS 9 has not resulted in any additional impairment allowance for the 13-week period ended June 30, 2018.

IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in the Company's 2018 Annual Report, Note 21 "Financial Risk Management" and in this Quarterly Report, Note 7 "Derivative Financial Instruments". The Company's hedging relationships in place as at March 30, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements.

The Company has applied IFRS 9 retrospectively, with the initial application date of April 1, 2018. As permitted by the transitional provisions of the standard, the Company elected not to restate comparative figures or note disclosures. Apart from the aforementioned hedge accounting considerations, there was no material impact to the Company's consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, "Leases." IFRS 16 introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. The new lessee accounting model requires substantially all leases to be

reported on a company's balance sheet and will provide greater transparency on companies' leased assets and liabilities. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. While the Company is still assessing the impact of adopting this standard on its consolidated financial statements, the recognition of certain leases is expected to have a material impact on the Company's Consolidated Balance Sheets.

The new standard will apply for annual periods beginning on or after January 1, 2019. The Company plans to apply this standard beginning March 31, 2019. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients available under the standard.

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 30, 2018 and July 1, 2017 are not indicative of the results of other periods.

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

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	**June 30, 2018**	July 1, 2017	March 31, 2018
Cash	**47,731**	45,318	67,709
Restricted cash	**2,093**	1,343	2,093
Cash equivalents	**45,083**	50,000	80,454
Cash and cash equivalents	**94,907**	96,661	150,256

Restricted cash represents cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of offshore merchandise and cash placed in escrow for asset acquisitions that occurred in the prior fiscal year.

As at June 30, 2018, the Company held short-term investments of $60.0 million (July 1, 2017 – 100.0 million; March 31, 2018 – $60.0 million). Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than or equal

to 365 days from the date of acquisition. These investments are non-redeemable until the maturity date, and therefore they are classified separately from cash and cash equivalents.

6. INVENTORIES

The cost of inventories recognized as an expense during the 13-week period ended June 30, 2018 was $116.7 million (July 1, 2017 – $112.7 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13-week period ended June 30, 2018 was $2.3 million (July 1, 2017 – $2.0 million). The amount of inventory with net realizable value equal to cost was $3.5 million as at June 30, 2018 (July 1, 2017 – $2.7 million).

7. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. The fair values of derivative financial instruments are determined based on observable market information as well as valuations determined by external valuators with experience in financial markets.

During the 13-week period ended June 30, 2018, the Company entered into forward contracts with total notional amounts of C$52.0 million to buy U.S. dollars and sell Canadian dollars (July 1, 2017 – C$62.4 million). As at June 30, 2018, the Company had remaining contracts in place representing a total notional amount of C$99.1 million (July 1, 2017 – C$104.2 million). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at June 30, 2018 resulted in the recognition of a derivative asset of $3.2 million (July 1, 2017 – $0.0 million; March 31, 2018 – $1.4 million), and a derivative liability of $0.1 million (July 1, 2017 – $2.3 million; March 31, 2018 – $0.3 million). As a result, the Company had an unrealized net gain of $3.1 million (July 1, 2017 – $2.3 million net loss; March 31, 2018 – $1.1 million net gain) recognized as other comprehensive income.

During the 13-week period ended June 30, 2018, a net gain of $0.1 million from settled contracts (July 1, 2017 – net gain of $0.1 million) was reclassified from other comprehensive income to inventory and expenses.

In the current quarter, reclassified amounts resulting from hedge ineffectiveness were immaterial. (July 1, 2017 – immaterial).

8. ASSETS HELD FOR SALE

On April 28, 2017, the Company entered into an agreement with Starbucks Coffee Canada Inc. ("Starbucks") whereby, among other things, the Company and Starbucks mutually agreed to terminate the Company's license to operate Starbucks-branded cafés within 11 retail locations.

Based on the terms of the agreement, the Company agreed to transfer to Starbucks the café inventories and capital assets from the terminated licensed locations, and the Company classified these inventories and capital assets as assets held for sale. Subsequent to the transfer, the Company has subleased space in each of the previously licensed locations for Starbucks to operate corporate-run cafés, similar to the 71 other Starbucks-branded cafés Starbucks operates in the Company's retail locations. The transfer and subsequent subleasing were completed on May 1, 2017.

9. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended June 30, 2018		13-week period ended July 1, 2017		52-week period ended March 31, 2018	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**26,800,609**	**221,854**	26,351,484	215,971	26,351,484	215,971
Issued during the period						
Directors' deferred share units converted	**–**	**–**	–	–	–	–
Options exercised	**73,125**	**845**	32,700	388	449,125	5,883
Balance, end of period	**26,873,734**	**222,699**	26,384,184	216,359	26,800,609	221,854

10. SHARE-BASED COMPENSATION

As at June 30, 2018, 1,685,025 stock options were outstanding with exercise prices ranging from $8.12 to $18.40. Of these outstanding stock options, 624,215 were exercisable at a weighted average exercise price of $11.55. As at July 1, 2017, there were 1,623,725 stock options outstanding of which 788,055 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 30, 2018 (July 1, 2017 – no options granted).

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 Directors' compensation during the 13-week period ended June 30, 2018 was in the form of DSUs (July 1, 2017 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. During the 13-week period ended June 30, 2018, the Company issued 5,250 DSUs with a value of $0.1 million (July 1, 2017 – 6,400 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 30, 2018 was $3.9 million (July 1, 2017 – $3.6 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.

11. SUPPLEMENTARY OPERATING INFORMATION

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

The following table summarizes net revenue by product line:

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017[4]
Print[1]	**118,352**	121,964
General merchandise[2]	**81,666**	76,832
Other[3]	**5,358**	7,561
Total	**205,376**	206,357

1 Includes books, magazines, newspapers, and shipping revenue.
2 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and shipping revenue.
3 Includes cafés, irewards, gift card breakage, plum breakage, corporate sales, and Kobo revenue share.
4 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017[1]
Superstores	**138,419**	141,695
Small format stores	**27,823**	27,066
Online (including store kiosks)	**33,776**	30,035
Other	**5,358**	7,561
Total	**205,376**	206,357

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017
Wages, salaries, and bonuses	**45,429**	43,465
Short-term benefits expense	**5,735**	5,444
Termination benefits expense	**527**	1,471
Retirement benefits expense	**471**	420
Share-based compensation	**489**	434
Total employee benefits expense	**52,651**	51,234

Termination benefits arise when the Company terminates certain employment agreements.

12. LOSS PER SHARE

Loss per share is calculated based on the weighted average number of shares outstanding during the period. The Company's stock options were anti-dilutive as the company reported a loss and, therefore, were not included in the June 30, 2018 and July 1, 2017 diluted loss per share calculations.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017[1]
Accounts receivable	**(5,623)**	(2,197)
Other assets	**(57)**	–
Inventories	**6,868**	(10,711)
Prepaid expenses	**(2,721)**	(1,980)
Accounts payable and accrued liabilities (current and long-term)	**(18,044)**	(7,295)
Unredeemed gift card liability	**(2,191)**	(3,812)
Provisions (current and long-term)	**(6)**	(7)
Deferred revenue	**151**	310
Net change in non-cash working capital balances	**(21,623)**	(25,692)

[1] Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 3).

14. RELATED PARTY TRANSACTIONS

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

Transactions with Key Management Personnel

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

(thousands of Canadian dollars)	**13-week period ended June 30, 2018**	13-week period ended July 1, 2017
Wages, salaries, and bonus	**2,019**	1,693
Short-term benefits expense	**39**	60
Retirement benefits expense	**19**	10
Share-based compensation	**338**	272
Directors' compensation	**89**	99
Total remuneration	**2,504**	2,134

Transactions with Shareholders

During the first quarter of fiscal 2019, 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. During the 13-week period ended June 30, 2018, the Company paid $0.8 million for these transactions (July 1, 2017 – $1.2 million). As at June 30, 2018, Indigo had $0.1 million payable to these companies under standard payment terms and $1.0 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (July 1, 2017 – $0.2 million payable and $1.0 million restricted cash). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 11. The Company has not entered into other transactions with the retirement plan.

Transactions with Associates

Calendar Club is a seasonal operation that is dependent on the November/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. In the 13-week period ended June 30, 2018, Indigo loaned $4.3 million to Calendar Club (July 1, 2017 – $2.5 million).

The Company had immaterial transactions with Unplug during the period.

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