"A truly great book should be read in youth, again in maturity and once more in old age, as a fine building should be seen by morning light, at noon and by moonlight."

– ROBERTSON DAVIES

THIRD QUARTER REPORT FOR THE 13 AND 39-WEEK PERIODS ENDED DECEMBER 30, 2017

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at February 6, 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 and 39-week periods ended December 30, 2017 and December 31, 2016. 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 2017 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 April 1, 2017 and the MD&A included in the Company's fiscal 2017 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 December 30, 2017, the Company operated 89 superstores under the banners *Chapters* and *Indigo* and 122 small format stores under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*.

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. In the first quarter fiscal 2018, the Company invested in Unplug Meditation LLC ("Unplug"), a U.S. meditation studio, resulting in a 20% voting interest and representation on the board of managers.

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 December 30, 2017**	**% Revenue**	13-week period ended December 31, 2016	% Revenue	**39-week period ended December 30, 2017**	**% Revenue**	39-week period ended December 31, 2016	% Revenue
Revenue	**433.3**	**100.0**	400.3	100.0	**864.1**	**100.0**	810.3	100.0
Cost of sales	**(244.2)**	**56.4**	(223.2)	55.8	**(481.5)**	**55.7**	(449.6)	55.5
Cost of operations	**(95.5)**	**22.0**	(89.5)	22.4	**(236.3)**	**27.3**	(227.6)	28.1
Selling, administrative, and other expenses	**(31.1)**	**7.2**	(31.1)	7.7	**(83.7)**	**9.7**	(78.3)	9.6
Adjusted EBITDA[1]	**62.5**	**14.4**	56.5	14.1	**62.6**	**7.2**	54.8	6.8
Amortization and other related capital charges	**(6.9)**	**1.6**	(5.6)	1.4	**(20.2)**	**2.3**	(17.4)	2.2
Net interest income	**0.8**	**0.2**	0.6	0.2	**2.0**	**0.2**	1.5	0.2
Earnings from equity investments	**2.4**	**0.6**	2.9	0.7	**1.4**	**0.2**	2.0	0.2
Earnings before income taxes	**58.8**	**13.6**	54.4	13.6	**45.8**	**5.3**	40.9	5.0

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

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies. Earnings 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 December 30, 2017 increased $33.0 million or 8.2% to $433.3 million from $400.3 million for the 13-week period ended December 31, 2016. Higher revenue was driven by continued double-digit growth in all areas of the general merchandise business, with exceptional growth in the toy and lifestyle categories. The toy business benefited from the popularity of collectibles within the industry, while lifestyle benefited from a successful seasonal assortment for holiday. This was complemented by a healthy print business, which saw growth over last year, due to several popular titles.

Online revenue increased by $16.0 million or 26.4% to $76.5 million for the 13-week period ended December 30, 2017 compared to $60.5 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.

Total comparable sales, which includes online sales, increased by 7.9% for the third quarter. Comparable retail superstore sales for the quarter increased 4.9%, while small format stores increased 2.3%. 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, permanent relocation, 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. During the 13-week period ended December 30, 2017, the Company renovated one superstore which was rebranded from *Chapters* to *Indigo*.

Revenue from other sources includes café revenue, irewards card sales, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed plum points ("plum breakage"), corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources increased $1.8 million or 22.0% to $10.0 million for the 13-week period ended December 30, 2017 compared to $8.2 million in the same period last year as higher plum breakage was partially offset by lower café revenue.

Management reviewed its accounting estimates related to the calculation of plum breakage and adjusted accordingly to reflect changes in customer redemption patterns and historical amendments to the program structure. The impact of this change in estimate for the 13-week period ended December 30, 2017 was $4.4 million, and has been accounted for prospectively as a change in accounting estimate. Management will continue to monitor redemption activity and will adjust for changes as observed. This increase was partially offset by a $2.8 million decrease in café revenue due to the termination of the Company's license to operate Starbucks-branded cafés within certain retail locations. The Company now subleases space to Starbucks in each of the previously licensed locations for Starbucks to operate corporate-run cafés in the Company's retail locations.

On a fiscal year-to-date basis, total consolidated revenue increased by $53.8 million or 6.6% to $864.1 million compared to $810.3 million for the same period last year. The increase was driven by strong sales growth across channels and general merchandise product categories, most significantly in lifestyle and toys, partially offset by the blockbuster release of *Harry Potter and the Cursed Child* in the second quarter of fiscal 2017. Year-to-date total comparable sales, which includes online sales, increased 6.2%, while year-to-date comparable retail store sales increased 3.8% for superstores and increased 1.5% in small format stores.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	% increase	Comparable sales % increase
Superstores	**289.3**	275.1	5.2%	4.9%
Small format stores	**57.5**	56.5	1.8%	2.3%
Online (including store kiosks)	**76.5**	60.5	26.4%	26.4%
Other	**10.0**	8.2	22.0%	N/A
Total	**433.3**	400.3	8.2%	7.9%

Revenue by product line is as follows:

	13-week period ended December 30, 2017	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Print[1]	**49.1%**	52.9%	**53.9%**	58.0%
General merchandise[2]	**48.3%**	44.1%	**42.4%**	38.6%
eReading[3]	**0.5%**	1.2%	**0.9%**	1.2%
Other[4]	**2.1%**	1.8%	**2.8%**	2.2%
Total	**100.0%**	100.0%	**100.0%**	100.0%

1 Includes books, magazines, newspapers, and shipping revenue.

2 Includes lifestyle, paper, toys, calendars, 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.

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016
Total retail store revenue	**346.8**	331.6
Total online revenue	**76.5**	60.5
Adjustments for stores not in both fiscal periods	**(4.4)**	(3.9)
Total comparable sales	**418.9**	388.2

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016
Total revenue by format	**289.3**	275.1	**57.5**	56.5
Adjustments for stores not in both fiscal periods	**(2.7)**	(2.0)	**(1.7)**	(1.9)
Comparable retail store sales	**286.6**	273.1	**55.8**	54.6

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 $21.0 million to $244.2 million for the 13-week period ended December 30, 2017, compared to $223.2 million for the same period last year. The increase was driven by higher sales volumes, as discussed above. As a percent of total revenue, cost of sales increased 0.6% to 56.4% compared to 55.8% for the same period last year. This increase was due to higher penetration of lower margin online sales and higher shipping costs.

On a fiscal year-to-date basis, cost of sales increased by $31.9 million or 7.1% to $481.5 million compared to $449.6 million for the same period last year as a result of higher sales volumes and online shipping costs. Year-to-date cost of sales as a percent of total revenue increased 0.2% to 55.7% compared to 55.5% in the same period last year.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased $6.0 million to $95.5 million for the 13-week period ended December 30, 2017, compared to $89.5 million for the same period last year. Operating costs increased primarily due to higher distribution costs as a result of increased sales volumes, and investment in the Company's

Online and Western distribution facilities to support its continued growth. As a percent of total revenue, cost of operations decreased by 0.4% to 22.0% this year, compared to 22.4% for the same period last year as a result of efficiencies in the retail channel.

On a fiscal year-to-date basis, cost of operations increased by $8.7 million to $236.3 million compared to $227.6 million for the same period last year. The increase was driven by higher sales volumes and investment in the Company's distribution facilities as discussed above. Year-to-date cost of operations as a percent of total revenue decreased by 0.8% to 27.3%, compared to 28.1% for the same period last year, as discussed above.

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 remained flat at $31.1 million for the 13-week period ended December 30, 2017. As a percent of total revenue, selling, administrative, and other expenses decreased by 0.5% to 7.2%, compared to 7.7% for the same period last year.

On a fiscal year-to-date basis, selling, administrative, and other expenses increased $5.4 million to $83.7 million compared to $78.3 million in the same period last year. Higher expenses in the current year were driven primarily by increased investment in creative, marketing and other head office areas to support sales growth and the transformation of retail and digital platforms. Year-to-date selling, administrative, and other expenses as a percent of total revenue increased 0.1% to 9.7% compared to 9.6% in the same period last year.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment increased $6.0 million to $62.5 million for the 13-week period ended December 30, 2017, compared to $56.5 million for the same period last year. Adjusted EBITDA as a percent of revenue increased by 0.3% to 14.4% this year from 14.1% for the same period last year. Higher adjusted EBITDA was driven by top-line growth, partially offset by a decline in margin rate and increased operating costs, as a result of higher sales volumes and investments in selling, administrative and other expenses to support strategic projects.

On a fiscal year-to-date basis, adjusted EBITDA increased $7.8 million to $62.6 million compared to $54.8 million in the same period last year. Year-to-date adjusted EBITDA as a percent of total revenue was 7.2% compared to 6.8%

in the same period last year, for the same reasons as discussed above. A reconciliation of adjusted EBITDA to net earnings 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 December 30, 2017 increased by $0.3 million to $6.9 million compared to $6.6 million for the same period last year. Capital expenditures in the third quarter of fiscal 2018 totaled $17.3 million compared to $10.5 million for the same period last year. Capital expenditure increases in the current period were driven by continued implementation of changes across Indigo's retail outlets, including full renovations and rebranding of stores, investments in digital, and investments in back-end productivity initiatives. Capital expenditures for the third quarter of fiscal 2018 included $9.6 million for retail store renovations and equipment, $4.4 million for technology equipment, and $3.3 million primarily for application software and internal development costs. None of the capital expenditures were financed through leases.

On a fiscal year-to-date basis, depreciation and amortization increased by $0.9 million to $19.5 million compared to $18.6 million in the same period last year. Year-to-date, the Company has spent $36.0 million on capital expenditures compared to $24.6 million last year due to the ramp up of the Company's store renovation activities. Capital expenditures for the current year included $20.1 million for retail store renovations and equipment, $7.9 million for technology equipment, and $8.0 million primarily for application software and internal development costs, which are classified as intangible assets. 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 December 30, 2017, 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 rates.

On a fiscal year-to-date basis, the Company recognized net interest income of $2.0 million compared to $1.5 million in the same period last year for the same reasons discussed above.

Earnings 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 gain from Calendar Club of $2.4 million for the 13-week period ended December 30, 2017, compared to net earnings of $2.9 million for the same period last year. Earnings from Unplug were immaterial for the 13-week period ended December 30, 2017.

On a fiscal year-to-date basis, Indigo recognized net earnings from Calendar Club of $1.4 million compared to net earnings of $2.0 million in the same period last year. Earnings from Unplug were immaterial on a fiscal year-to-date basis.

Income Taxes

The Company recognized a non-cash income tax expense of $16.2 million for the 13-week period ended December 30, 2017, compared to recognizing a non-cash income tax expense of $14.5 million for the same period last year. The increase is due to an increase in earnings before income taxes during the third quarter fiscal 2018. The Company used a tax rate of 26.8% to calculate income tax expense for the third quarter of fiscal 2018, and based on a full 52-week period, does not expect to pay cash income taxes as it has sufficient non-capital loss carryforwards to offset taxable income.

On a fiscal year-to-date basis, Indigo recognized a non-cash income tax expense of $13.3 million compared to recognizing a non-cash income tax expense of $11.2 million in the same period last year for the same reasons discussed above.

Net Earnings

The Company recognized net earnings of $42.6 million for the 13-week period ended December 30, 2017 ($1.58 net earnings per common share), compared to net earnings of $40.0 million ($1.51 net earnings per common share) for the same period last year. The increase in net earnings was primarily driven by top-line growth, partially offset by higher distribution costs due to increased volumes, as well as higher selling, administrative, and other expenses to support strategic projects.

On a fiscal year-to-date basis, the Company recognized net earnings of $32.6 million ($1.22 net earnings per common share), compared to net earnings of $29.8 million ($1.13 net earnings per common share) in the same period last year. Higher net earnings were driven by the same reasons discussed above, partly offset by a $1.0 million asset impairment reversal last year.

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 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 December 30, 2017, the Company entered contracts with total notional amounts of C$49.1 million to buy U.S. dollars and sell Canadian dollars. In the same period last year, the Company entered contracts with total notional amounts of C$49.0 million. On a fiscal year-to-date basis, the Company entered contracts with total notional amounts of C$116.9 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C$135.5 million in the same period last year.

As at December 30, 2017, the Company had remaining contracts in place representing a total notional amount of C$89.8 million and an unrealized net loss of $2.3 million, compared to a total notional amount of C$56.6 million and an unrealized net gain of $1.1 million as at December 31, 2016. During the 13 and 39-week periods ended December 30, 2017, net losses of $1.2 million and $3.3 million, respectively, from settled contracts were reclassified from other comprehensive income to inventory and expenses compared to reclassified net gains of $0.8 million and $1.1 million for the same periods last year.

Seasonality and Third 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. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal years 2018 and 2017 are 52 weeks, while fiscal year 2016 was 53 weeks.

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	**Q3[1] Fiscal 2018**	Q2[1] Fiscal 2018	Q1[1] Fiscal 2018	Q4[1] Fiscal 2017	Q3[1] Fiscal 2017	Q2[1] Fiscal 2017	Q1[1] Fiscal 2017	Q4[2] Fiscal 2016
Revenue	**433.3**	224.5	206.3	209.5	400.3	216.9	193.1	220.4
Total net earnings (loss)	**42.6**	(4.7)	(5.3)	(8.9)	40.0	(1.2)	(9.0)	(13.4)
Basic earnings (loss) per share	**$1.58**	($0.18)	($0.20)	($0.33)	$1.51	($0.04)	($0.34)	($0.51)
Diluted earnings (loss) per share	**$1.56**	($0.18)	($0.20)	($0.33)	$1.48	($0.04)	($0.34)	($0.51)

1 13 week period
2 14 week period

Overview of Consolidated Balance Sheets

Assets

As at December 30, 2017, total assets increased $24.0 million to $734.6 million, compared to $710.6 million as at December 31, 2016. The increase was driven by higher inventory and property plant and equipment, partly offset by lower cash, cash equivalents and short term investments, and a decrease in deferred tax assets. The inventories increase of $27.4 million was primarily driven by top-line growth. The increase in property, plant and equipment of $13.4 million was driven by investment in retail store renovations, distribution facilities and digital initiatives. Cash, cash equivalents and short term investments decreased $8.4 million primarily as a result of higher inventory purchases to support top-line growth and an increase in capital asset investment, partially offset by an increase in cash generated from operating activities. Deferred tax assets were applied in the current period to offset the Company's estimated tax expense, resulting in a $8.7 million decrease in assets.

As at December 30, 2017, total assets increased by $126.0 million to $734.6 million compared to $608.6 million as at April 1, 2017. The increase was driven by higher cash and cash equivalents and short term investments, inventory, and property plant and equipment, partially offset by a decrease in deferred tax assets. The net increase in cash, cash equivalents and short term investments of $77.5 million, and the $9.7 million increase in accounts receivable were primarily driven by sales generated during the fiscal 2018 holiday season. Consistent with the seasonality inherent in the Company's operations and the sales growth previously discussed, inventory increased by $39.3 million. The increase in property, plant and equipment of $14.1 million was due to investment in store renovations, distribution facilities and digital initiatives.

Assets held for sale as at April 1, 2017 related to the termination of the Company's license to operate Starbucks-branded cafés within certain retail locations and the subsequent subleasing arrangement for Starbucks to operate corporate-run cafés in these locations. All assets were transferred to Starbucks as at May 1, 2017.

Liabilities

As at December 30, 2017, total liabilities decreased $2.7 million to $327.3 million, compared to $330.0 million as at December 31, 2016. The decrease was driven by a $7.2 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 due to subtle changes in historic redemption patterns. These noted decreases were partially offset by an increase in accounts payable and accrued liabilities of $6.3 million as a result of increased sales volume. Additionally, a negative mark-to-market on the Company's derivative portfolio resulted in the recognition of a $2.8 million derivative liability in fiscal 2018 due to the Canadian dollar appreciating against the U.S. dollar.

On a fiscal year-to-date basis, total liabilities increased $90.5 million to $327.3 million compared to $236.8 million as at April 1, 2017. The increase was primarily driven by a $83.7 million increase in current and long-term accounts payable and accrued liabilities and a $8.4 million increase in unredeemed gift card liabilities, which are consistent with the seasonal nature of a retail business during the holiday season.

Equity

Total equity at December 30, 2017 increased $26.6 million to $407.2 million, compared to $380.6 million as at December 31, 2016. Over the last four quarters, the Company generated net earnings of $23.7 million and had a $4.5 million increase in share capital, due to the exercise of stock options. This was partially offset by a $2.5 million increase in accumulated other comprehensive loss that was recognized for the unrealized losses on the Company's foreign currency hedge portfolio.

On a fiscal year-to-date basis, total equity at December 30, 2017 increased $35.4 million to $407.2 million, compared to $371.8 million as at April 1, 2017 primarily due to the year to date net earnings of $32.6 million.

The weighted average number of common shares outstanding for the third quarter of fiscal 2018 was 26,784,143 compared to 26,299,877 for the same period last year. As at February 6, 2018, the number of outstanding common shares was 26,674,978 with a book value of $220.1 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 $275.1 million as at December 30, 2017, compared to $255.3 million as at December 31, 2016 and $245.7 million as at April 1, 2017. Increased working capital compared to the same period last year was primarily driven by higher current assets. As previously discussed, an increase in inventories of $27.4 million was offset by a reduction in cash, cash equivalents and short-term investments of $8.4 million.

The Company's leverage position (defined as Total Liabilities to Total Equity) declined slightly to 0.8:1 as at December 30, 2017 compared to 0.9:1 as at December 31, 2016 a result of total equity growing faster than total liabilities. The Company's leverage position as at December 30, 2017 increased slightly compared to 0.6:1 as at April 1, 2017 due to seasonal nature of the business.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $87.4 million for the 13-week period ended December 30, 2017 compared to an increase of $132.4 million in the same period last year. The increase in the current period was primarily a result of cash flows from operating activities of $154.6 million, partially offset by cash flows used in investing activities of $66.5 million.

On a fiscal year to basis, cash and cash equivalents increased $117.5 million due to the seasonal nature of the business, as the Company generates the majority of its revenue during the holiday season.

Cash Flows From Operating Activities

The Company generated cash flows of $153.5 million from operating activities in the 13-week period ended December 30, 2017 compared to the $139.2 million in the same period last year, an increase of $14.3 million. This increase was primarily driven by an increase in cash generated from working capital. The Company generated $87.6 million of cash for working capital this year compared to $82.2 million of cash in the same period last year, primarily driven by higher inventory balances and a decrease of plum liability due to a change in accounting estimate in the current period.

On a fiscal year-to-date basis, cash flows generated for operating activities decreased by $5.6 million to $111.9 million in the current period compared to $117.5 million generated in the same period last year. This was primarily a result of an increase in cash tied up in working capital, partly offset by higher earnings.

Cash Flows Used for Investing Activities

The Company used cash flows of $66.5 million in investing activities in the 13-week period ended December 30, 2017 compared to using $10.1 million in the same period last year, an increase of $56.4 million. This was primarily driven by an increase in short term investments of $50.0 million. The Company spent $17.3 million on capital projects this year compared to spending $10.5 million in the same period last year, which is consistent with previously discussed strategic initiatives to transform its digital and retail platforms.

On a fiscal year-to-date basis, the Company received cash flows of $3.7 million for investing activities compared to using $23.2 million in the same period last year, an increase of $26.9 million. The increase was primarily driven by a $40.0 million decrease in the Company's short term investments, partly offset by higher capital investments. In addition, the Company spent $36.0 million on capital projects compared to spending $24.6 million in the same period last year as discussed above.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Construction, renovations, and equipment	**9.6**	5.2	**20.1**	13.2
Intangible assets (primarily application software and internal development costs)	**3.3**	3.6	**8.0**	8.7
Technology equipment	**4.4**	1.7	**7.9**	2.7
Total	**17.3**	10.5	**36.0**	24.6

Cash Flows From Financing Activities

The Company generated cash flows of $1.6 million from financing activities in the 13-week period ended December 30, 2017 compared to generating $3.0 million in the same period last year, a decrease of $1.4 million. The variance was driven by lower cash proceeds received from option exercises in the current period.

On a fiscal year-to-date basis, cash flows generated from financing activities decreased to $3.3 million in the current period compared to $4.5 million in the same period last year. This decrease of $1.2 million was driven by the same reasons discussed above.

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 2018. 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 2017 Annual Report.

Accounting Standards Implemented in the Third Quarter of Fiscal 2018

There were no new accounting standards implemented in the third quarter of fiscal 2018.

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. The Company applied this standard beginning April 2, 2017. Adopting these amendments did not have a significant impact on the Company's results of operations, financial position, or disclosures.

New Accounting Pronouncements

Revenue from Contracts with Customers ("IFRS 15")

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

IFRS 15 must be applied retrospectively using either the retrospective or cumulative effect method for annual reporting periods beginning on or after January 1, 2018. The Company plans to apply this standard using the retrospective transition method beginning April 1, 2018.

Implementation of IFRS 15 is expected to impact the allocation of deferred plum program revenue. Revenue is currently allocated to plum points using the residual fair value method. Under IFRS 15, revenue will be allocated based on relative standalone selling prices between plum points and the goods on which points were earned. The Company is in its final stages of analyzing the impact of this change and other impacts of adopting this standard on its results of operations, financial position, and disclosures.

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. The Company plans to apply this standard beginning on April 1, 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 has determined that the adoption of IFRS 9 will not have a significant impact on its consolidated financial results.

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. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures.

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 October 1, 2017 and ended on December 30, 2017 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 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, 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 December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Adjusted EBITDA	**62.5**	56.5	**62.6**	54.8
Depreciation of property, plant, and equipment	**(4.8)**	(4.3)	**(13.7)**	(12.0)
Amortization of intangible assets	**(2.0)**	(2.3)	**(5.7)**	(6.5)
Net reversal of capital asset impairments	**–**	1.0	**–**	1.0
Loss on disposal of capital assets	**(0.1)**	–	**(0.8)**	0.0
Net interest income	**0.8**	0.6	**2.0**	1.6
Share of earnings from equity investments	**2.4**	2.9	**1.4**	2.0
Earnings before income taxes	**58.8**	54.4	**45.8**	40.9

Indigo Books & Music Inc.
468 King Street West, Suite 500
Toronto, ON M5V 1L8
Phone: (416) 364-4499   Fax: (416) 364-0355

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 6th day of February, 2018.

Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at December 30, 2017**	As at December 31, 2016	As at April 1, 2017
ASSETS			
Current			
Cash and cash equivalents (note 5)	**247,895**	316,255	130,438
Short-term investments (note 5)	**60,000**	–	100,000
Accounts receivable	**17,139**	18,250	7,448
Inventories (note 6)	**270,839**	243,439	231,576
Prepaid expenses	**4,253**	3,825	11,706
Derivative assets (note 7)	**500**	1,060	266
Assets held for sale (note 8)	**–**	–	1,037
Total current assets	**600,626**	582,829	482,471
Property, plant, and equipment	**79,215**	65,779	65,078
Intangible assets	**17,619**	18,646	15,272
Equity investments	**5,438**	2,948	1,800
Deferred tax assets	**31,673**	40,381	43,981
Total assets	**734,571**	710,583	608,602
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**254,873**	248,547	170,611
Unredeemed gift card liability	**58,777**	66,002	50,396
Provisions	**172**	26	110
Deferred revenue	**8,892**	12,948	12,852
Income taxes payable	**23**	26	360
Current portion of long-term debt	**–**	9	–
Derivative liabilities (note 7)	**2,791**	–	–
Total current liabilities	**325,528**	327,558	234,329
Long-term accrued liabilities	**1,773**	2,353	2,378
Long-term provisions	**45**	89	51
Total liabilities	**327,346**	330,000	236,758
Equity			
Share capital (note 9)	**219,976**	215,463	215,971
Contributed surplus (note 10)	**11,361**	10,481	10,671
Retained earnings	**177,566**	153,863	145,007
Accumulated other comprehensive income (note 7)	**(1,678)**	776	195
Total equity	**407,225**	380,583	371,844
Total liabilities and equity	**734,571**	710,583	608,602

See accompanying notes

On behalf of the Board:

Heather Reisman

Heather Reisman, Director

Michael Kirby, Director

Consolidated Statements of Earnings and Comprehensive Earnings

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Revenue (note 11)	**433,274**	400,296	**864,102**	810,340
Cost of sales	**(244,230)**	(223,175)	**(481,455)**	(449,608)
Gross profit	**189,044**	177,121	**382,647**	360,732
Operating, selling, and administrative expenses (note 11)	**(133,454)**	(126,230)	**(340,241)**	(323,275)
Operating profit	**55,590**	50,891	**42,406**	37,457
Net interest income	**753**	639	**2,011**	1,527
Share of earnings from equity investments	**2,444**	2,886	**1,405**	1,964
Earnings before income taxes	**58,787**	54,416	**45,822**	40,948
Income tax expense				
Current	**(90)**	–	**(90)**	–
Deferred	**(16,147)**	(14,462)	**(13,173)**	(11,174)
Net earnings	**42,550**	39,954	**32,559**	29,774
Other comprehensive income (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 (64) and 1,505; 2016 – 467 and 686]	**175**	1,278	**(4,118)**	1,876
Reclassification of net realized (gain) loss [net of taxes of (329) and (892); 2016 – 288 and 402]	**899**	(789)	**2,440**	(1,100)
Other comprehensive income (loss)	**1,074**	489	**(1,678)**	776
Total comprehensive earnings	**43,624**	40,443	**30,881**	30,550
Net earnings per common share (note 12)				
Basic	**$ 1.58**	$ 1.51	**$ 1.22**	$ 1.13
Diluted	**$ 1.56**	$ 1.48	**$ 1.20**	$ 1.11

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, April 2, 2016	209,318	10,591	124,089	–	343,998
Net earnings	–	–	29,774	–	29,774
Exercise of options (note 9)	5,475	(930)	–	–	4,545
Directors' deferred stock units converted (note 9)	670	(670)	–	–	–
Share-based compensation (note 10)	–	1,210	–	–	1,210
Directors' compensation (note 10)	–	280	–	–	280
Other comprehensive income (note 7)	–	–	–	776	776
Balance, December 31, 2016	215,463	10,481	153,863	776	380,583
Balance, April 1, 2017	**215,971**	**10,671**	**145,007**	**195**	**371,844**
Net earnings	**–**	**–**	**32,559**	**–**	**32,559**
Exercise of options (note 9)	**4,005**	**(675)**	**–**	**–**	**3,330**
Share-based compensation (note 10)	**–**	**1,103**	**–**	**–**	**1,103**
Directors' compensation (note 10)	**–**	**262**	**–**	**–**	**262**
Other comprehensive income (note 7)	**–**	**–**	**–**	**(1,873)**	**(1,873)**
Balance, December 30, 2017	**219,976**	**11,361**	**177,566**	**(1,678)**	**407,225**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	**42,550**	39,954	**32,559**	29,774
Adjustments to reconcile net earnings to cash flows from operating activities				
Depreciation of property, plant, and equipment	**4,840**	4,281	**13,738**	12,040
Amortization of intangible assets	**2,020**	2,254	**5,717**	6,530
Net impairment (reversal) of capital assets	**–**	(963)	**–**	(963)
Loss on disposal of capital assets	**85**	–	**46**	1
Share-based compensation (note 10)	**321**	454	**1,103**	1,210
Directors' compensation (note 10)	**82**	83	**263**	280
Deferred tax assets	**16,146**	14,462	**12,992**	11,171
Disposal of assets held for sale (note 8)	**–**	–	**1,037**	–
Collateral from derivative transactions	**1,910**	–	**–**	–
Other	**1,142**	40	**1,579**	(335)
Net change in non-cash working capital balances (note 13)	**87,562**	82,154	**46,296**	61,253
Interest expense	**3**	3	**8**	33
Interest income	**(756)**	(642)	**(2,019)**	(1,560)
Income taxes received	**–**	51	**–**	51
Share of earnings from equity investments	**(2,444)**	(2,886)	**(1,405)**	(1,964)
Cash flows from operating activities	**153,461**	139,245	**111,914**	117,521
CASH FLOWS USED FOR INVESTING ACTIVITIES				
Purchase of property, plant, and equipment	**(13,932)**	(6,860)	**(27,921)**	(15,884)
Addition of intangible assets	**(3,345)**	(3,620)	**(8,066)**	(8,670)
Change in short-term investments	**(50,000)**	–	**40,000**	–
Distribution from equity investments	**(1)**	–	**433**	437
Interest received	**765**	422	**1,871**	963
Investment in associate (note 1)	**–**	–	**(2,666)**	–
Cash flows from (used for) investing activities	**(66,513)**	(10,058)	**3,651**	(23,154)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	**–**	(12)	**–**	(44)
Interest paid	**–**	(1)	**–**	(27)
Proceeds from share issuances (note 9)	**1,561**	3,008	**3,331**	4,545
Cash flows from financing activities	**1,561**	2,995	**3,331**	4,474
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1,154)**	178	**(1,439)**	926
Net increase in cash and cash equivalents during the period	**87,355**	132,360	**117,457**	99,767
Cash and cash equivalents, beginning of period	**160,540**	183,895	**130,438**	216,488
Cash and cash equivalents, end of period	**247,895**	316,255	**247,895**	316,255

See accompanying notes

Notes to Consolidated Financial Statements

December 30, 2017
(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, its equity investment in Calendar Club of Canada Limited Partnership ("Calendar Club"), and its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc., and YYZ Holdings Inc. ("YYZ"), along with YYZ's equity investment in Unplug Meditation LLC. ("Unplug"). In the first quarter of fiscal 2018, the Company invested $2.7 million in Unplug, a U.S. meditation studio, resulting in a 20.0% voting interest and representation on the board of managers. 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 2017 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 2017 Annual Report.

The unaudited interim condensed consolidated financial statements for the 13 and 39-week periods ended December 30, 2017 (including comparatives) were approved by the Board of Directors on February 6, 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.

Management reviewed its accounting estimates related to revenue recognition from unredeemed gift cards and plum points and adjusted accordingly to reflect changes in customer redemption patterns and other factors. The impact of these changes in estimate in the 13 and 39-week periods ended December 30, 2017 was $4.4 million and $12.0 million, respectively. These changes have been accounted for prospectively as a change in accounting estimate.

3. CHANGES IN ACCOUNTING POLICIES

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. The Company applied this standard beginning April 2, 2017. Adopting these amendments did not have a significant impact on the Company's results of operations, financial position, or disclosures.

New Accounting Pronouncements

Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a new standard that specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Application of IFRS 15 is mandatory for all

IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments, and insurance contracts.

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Implementation of IFRS 15 is expected to impact the allocation of deferred plum program revenue. Revenue is currently allocated to plum points using the residual fair value method. Under IFRS 15, revenue will be allocated based on relative standalone selling prices between plum points and the goods on which points were earned. The Company is in its final stages of analyzing the impact of this change and other impacts of adopting this standard on its results of operations, financial position, and disclosures.

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. The Company plans to apply this standard beginning on April 1, 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 has determined that the adoption of IFRS 9 will not have a significant impact on its consolidated financial results.

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. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures.

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 and 39-week periods ended December 30, 2017 and December 31, 2016 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)	**December 30, 2017**	December 31, 2016	April 1, 2017
Cash	**166,137**	147,809	63,872
Restricted cash	**1,343**	3,217	1,343
Cash equivalents	**80,415**	165,229	65,223
Cash and cash equivalents	**247,895**	316,255	130,438

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

As at December 30, 2017 the Company held short-term investments of $60.0 million (December 31, 2016 – no such investments; April 1, 2017 – $100.0 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 and 39-week periods ended December 30, 2017 were $243.2 million and $480.2 million, respectively (2016: 13 weeks – $223.8 million; 39 weeks – $455.6 million). Inventories consist of the landed cost of goods sold and exclude online shipping costs, inventory shrink and damage reserve, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost during the 13 and 39-week periods ended December 30, 2017 were $2.8 million and $6.3 million, respectively (2016: 13 weeks – $3.2 million; 39 weeks – $5.8 million). The amount of inventory with net realizable value equal to cost was $2.1 million as at December 30, 2017 (December 31, 2016 – $3.7 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 and 39-week periods ended December 30, 2017, the Company entered into forward contracts with total notional amounts of C$49.1 million and C$116.9 million, respectively, to buy U.S. dollars and sell Canadian dollars (2016: 13 weeks – C$49 million; 39 weeks – C$135.5 million). As at December 30, 2017, the Company had remaining contracts in place representing a total notional amount of C$89.8 million (December 31, 2016 – C$56.6 million). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at December 30, 2017 resulted in the recognition of a derivative asset of $0.5 million (December 31, 2016 – $1.1 million; April 1, 2017 – $0.3 million), and a derivative liability of $2.8 million (December 31, 2016 – no derivative liability; April 1, 2017 – no derivative liability). As a result, the Company had an unrealized net loss of $2.3 million (December 31, 2016 – $1.1 million net gain; April 1, 2017 – $0.3 million net gain) recognized as other comprehensive income.

During the 13 and 39-week periods ended December 30, 2017, a net loss of $1.2 million and $3.3 million, respectively from settled contracts (2016: 13 weeks – net gain of $0.8 million; 39 weeks – net gain of $1.1 million) was reclassified from other comprehensive income to inventory and expenses.

In the current quarter, there was a foreign exchange realized loss of less than $0.1 million, compared to a realized gain of $0.1 million in the same period last year.

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 70 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:

	39-week period ended December 30, 2017		39-week period ended December 31, 2016		52-week period ended April 1, 2017	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**26,351,484**	**215,971**	25,797,351	209,318	25,797,351	209,318
Issued during the period						
Directors' deferred share units converted	–	–	67,108	670	67,108	670
Options exercised	**317,875**	**4,005**	449,050	5,475	487,025	5,983
Balance, end of period	**26,669,359**	**219,976**	26,313,509	215,463	26,351,484	215,971

10. SHARE-BASED COMPENSATION

As at December 30, 2017, 1,920,125 stock options were outstanding with exercise prices ranging from $8.12 to $18.40. Of these outstanding stock options, 820,580 were exercisable at a weighted average exercise price of $11.40. As at December 31, 2016, there were 1,909,150 stock options outstanding of which 678,725 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 and 39-week periods ended December 30, 2017, the pre-forfeiture value of the options was $0.6 million and $2.7 million, respectively (2016: 13 weeks – $0.1 million; 39 weeks – $2.8 million).

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

	13-week period ended December 30, 2017	13-week period ended December 31, 2016
Black-Scholes option pricing assumptions		
Risk-free interest rate	**1.5%**	0.6%
Expected volatility	**30.6%**	33.0%
Expected time until exercise	**3.0 years**	3.0 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**27.0%**	26.9%

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 and 39-week periods ended December 30, 2017 was in the form of DSUs (2016 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. During the 13 and 39-week periods ended December 30, 2017, the Company issued 4,332 DSUs with a value of $0.1 million and 15,873 DSUs with a value of $0.3 million, respectively (2016: 13 weeks – 4,627 DSUs with a value of $0.1 million; 39 weeks – 16,266 DSUs with a value of $0.3 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at December 30, 2017 was $3.7 million (December 31, 2016 – $3.4 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

11. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

(thousands of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Print[1]	**212,560**	211,726	**465,531**	469,108
General merchandise[2]	**209,067**	176,670	**366,596**	313,795
eReading[3]	**2,439**	4,593	**7,444**	9,747
Other[4]	**9,208**	7,307	**24,531**	17,690
Total	**433,274**	400,296	**864,102**	810,340

1 Includes books, magazines, newspapers, and shipping revenue.
2 Includes lifestyle, paper, toys, calendars, 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 December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Wages, salaries, and bonuses	**56,536**	53,712	**144,829**	136,916
Short-term benefits expense	**4,697**	4,650	**15,099**	14,115
Termination benefits expense	**736**	518	**2,715**	1,444
Retirement benefits expense	**417**	397	**1,266**	1,172
Share-based compensation	**321**	454	**1,103**	1,210
Total employee benefits expense	**62,707**	59,731	**165,012**	154,857

Termination benefits arise when the Company terminates certain employment agreements.

12. EARNINGS PER SHARE

Earnings per share is calculated based on the weighted average number of shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options do not result in adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the 13 and 39-week periods ended December 30, 2017 and December 31, 2016 is as follows:

(thousands of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Weighted average number of common shares outstanding, basic	**26,930**	26,394	**26,711**	26,300
Effect of dilutive securities – stock options	**373**	552	**416**	589
Weighted average number of common shares outstanding, diluted	**27,303**	26,946	**27,127**	26,889

For the 13 and 39-week periods ended December 30, 2017, 1,105,000 and 1,127,000 anti-dilutive stock options, respectively (2016: 13 weeks – 652,000 options; 39 weeks – 652,000 options) were excluded from the computation of diluted net earnings per common share.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Accounts receivable	**1,000**	48	**(9,691)**	(10,587)
Inventories	**21,538**	20,828	**(39,263)**	(25,651)
Prepaid expenses	**3,220**	1,219	**7,453**	7,465
Accounts payable and accrued liabilities (current and long-term)	**43,919**	39,667	**83,657**	75,305
Unredeemed gift card liability	**22,403**	21,028	**8,381**	15,033
Provisions (current and long-term)	**(6)**	(9)	**56**	(28)
Income tax payable	**1**	–	**(337)**	–
Deferred revenue	**(4,513)**	(627)	**(3,960)**	(284)
Net change in non-cash working capital balances	**87,562**	82,154	**46,296**	61,253

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 December 30, 2017**	13-week period ended December 31, 2016	**39-week period ended December 30, 2017**	39-week period ended December 31, 2016
Wages, salaries, and bonus	**2,559**	1,737	**5,834**	4,808
Short-term benefits expense	**56**	51	**162**	142
Retirement benefits expense	**20**	14	**40**	42
Share-based compensation	**158**	315	**692**	774
Directors' compensation	**82**	83	**263**	280
Total remuneration	**2,875**	2,200	**6,991**	6,046

Transactions with Shareholders

During the third quarter of fiscal 2018, 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 and 39-week periods ended December 30, 2017, the Company paid $2.9 million and $5.4 million, respectively for these transactions (2016: 13 weeks – $2.9 million; 39 weeks – $4.7 million). As at December 30, 2017, Indigo had $0.5 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 (December 31, 2016 – $0.3 million payable and $2.8 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 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 and 39-week periods ended December 30, 2017, Indigo loaned $2.5 million and $14.7 million, respectively to Calendar Club (2016: 13 weeks – $4.3 million; 39 weeks – $11.6 million). All loans were repaid in full as at December 30, 2017.

The Company had immaterial transactions with Unplug during the period.

Investor Information

Corporate Home Office
468 King Street West
Suite 500
Toronto, Ontario
Canada M5V 1L8
Telephone: (416) 364-4499
Fax: (416) 364-0355

Investor Contact
InvestorRelations@indigo.ca
www.chapters.indigo.ca/investor-relations/

Media Contact
Kate Gregory
Senior Manager, Public Relations
Telephone: (416) 364-4499 ext. 6659

Stock Listing
Toronto Stock Exchange

Trading Symbol
IDG

Transfer Agent and Registrar
AST Trust Company (Canada)
P.O. Box 700, Station B
Montreal, Quebec
Canada H3B 3K3
Telephone:
(Toll Free) 1-800-387-0825
(Toronto) (416) 682-3860
Fax: 1-888-249-6189
Email: inquiries@astfinancial.com
Website: www.astfinancial.com

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