FIRST QUARTER REPORT
FOR THE 13-WEEK PERIOD ENDED JUNE 29, 2019

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at August 13, 2019 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 29, 2019 and June 30, 2018. 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." These statements reflect the adoption of IFRS 16 *Leases* on March 31, 2019, using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, and no restatement of the prior comparative period. Please see "Adoption of IFRS 16" for further information. Except as otherwise noted, the same accounting policies and methods of computation as those used in the preparation of the fiscal 2019 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 30, 2019 and the MD&A included in the Company's fiscal 2019 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. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating its first retail store in Short Hills, New Jersey. As at June 29, 2019, the Company operated 89 superstores under the banners *Chapters* and *Indigo* and 113 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 supports a separate registered charity called the 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. The selected financial information is derived from the unaudited interim condensed consolidated financial statements for the 13-week periods ended June 29, 2019 and June 30, 2018. The Company implemented IFRS 16 Leases, on March 31, 2019 using the modified retrospective approach. As a result, the Company's first quarter of 2020 reflects lease accounting under IFRS 16, while the comparative quarters have not been restated. This resulted in a material increase to adjusted EBITDA.

(millions of Canadian dollars)	**13-week period ended June 29, 2019**	**% Revenue**	13-week period ended June 30, 2018	% Revenue
Revenue	**192.6**	**100.0**	205.4	100.0
Cost of sales	**(108.7)**	**56.4**	(117.5)	57.2
Cost of operations	**(58.7)**	**30.5**	(74.1)	36.1
Selling, administrative, and other expenses	**(25.4)**	**13.2**	(27.1)	13.2
Adjusted EBITDA[1]	**(0.2)**	**0.1**	(13.3)	6.5
Depreciation of property, plant and equipment and right-of-use assets	**(15.8)**	**8.2**	(5.1)	2.5
Amortization of intangible assets	**(3.2)**	**1.7**	(2.2)	1.1
Loss on disposal of capital assets	**(0.5)**	**0.3**	(0.3)	0.1
Net interest income (expense)	**(5.4)**	**2.8**	0.8	0.4
Share of loss from equity investments	**(0.8)**	**0.4**	(0.6)	0.3
Loss before income taxes	**(25.9)**	**13.4**	(20.7)	10.1

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. A reconciliation of adjusted EBITDA to earnings (loss) before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

Adoption of IFRS 16 *Leases* ("IFRS 16")

The Company's financial performance in the first quarter of fiscal 2020 was materially impacted by the adoption of IFRS 16 *Leases*, which supersedes IAS 17. IFRS 16 introduced a single lessee accounting model which required substantially all the Company's operating leases to be recorded on balance sheet as a right-of-use asset and a lease liability, representing the right to use the underlying asset during the lease term and the obligation to make future lease payments, respectively. The Company implemented the standard on March 31, 2019 using the modified retrospective approach; therefore, the Company's 2020 first quarter results reflect lease accounting under IFRS 16. Prior year results have not been restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17.

Certain lease-related expenses which were previously recorded in operating expenses are now recorded as depreciation on the right-of-use asset and interest expense on the lease liability, line items which are reported below the adjusted EBITDA key performance indicator. The depreciation expense associated with the right-of-use asset is recognized on a straight-line basis over the associated lease term, while the interest expense declines over the life of the lease, as the liability is repaid. From a measurement perspective, lease-related expenses are higher in the first half of the lease term, and lower in the second half when compared to the previous accounting method because of the recognition pattern for interest expense. Combined with the change in presentation on the consolidated statements of earnings (loss), this resulted in a positive year-over-year variance in adjusted EBITDA.

The impact of this adoption on the Company's statement of loss for the 13-week period ended June 29, 2019 is as follows:

(millions of Canadian dollars)	13-week period ended June 30, 2019 IFRS 16	Impact of IFRS 16	13-week period ended June 30, 2019 IAS 17	% Revenue
Revenue	192.6	–	192.6	100.0
Cost of sales	(108.7)	–	(108.7)	56.4
Cost of operations	(58.7)	(16.0)	(74.7)	38.8
Selling, administrative, and other expenses	(25.4)	(0.6)	(26.0)	13.5
Adjusted EBITDA[1]	(0.2)	(16.6)	(16.8)	8.7
Depreciation of property, plant and equipment and right-of-use assets	(15.8)	9.9	(5.9)	3.1
Amortization of intangible assets	(3.2)	–	(3.2)	1.7
Loss on disposal of capital assets	(0.5)	–	(0.5)	0.3
Net interest income (expense)	(5.4)	6.1	0.7	0.4
Share of loss from equity investments	(0.8)	–	(0.8)	0.4
Loss before income taxes	(25.9)	(0.6)	(26.5)	13.8

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

Refer to Note 3 of the unaudited interim condensed consolidated financial statements for further details regarding the adoption of IFRS 16 and the impact to the consolidated balance sheets and opening retained earnings.

Revenue

Total consolidated revenue for the 13-week period ended June 29, 2019 decreased \$12.8 million or 6.2% to \$192.6 million from \$205.4 million for the 13-week period ended June 30, 2018. The decline in sales was a result of a strategic shift to reduce promotional activity to improve profitability, and eliminate unprofitable sales. Additionally, the general merchandise business continued to be affected by softer discretionary spending in product categories core to the Company and a more mature assortment, while the print business has sustained historical trends.

Total comparable sales, which includes online sales, decreased by 7.6% for the first quarter. Comparable retail superstore sales for the quarter decreased 6.5%, while small format stores decreased 2.4%, primarily as a result of the Company's planned efforts to reduce promotions. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are 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, material changes in square footage, and the impact of a 53-week fiscal year, when applicable. These 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 decreased by $5.0 million or 14.8% to $28.8 million for the 13-week period ended June 29, 2019 compared to $33.8 million in the same period last year. Online sales experienced a decline across all categories, due to a strategic reduction of promotional campaigns to decrease the Company's reliance on discounting and improve the profitability of the channel. The merchandising strategy has also been refined to remove low-price low-margin items which historically drove traffic and sales at the expense of profitability once the channel's fulfillment expenses were considered.

Retail revenue decreased by $5.6 million or 3.4% to $160.6 million for the 13-week period ended June 29, 2019 compared to $166.2 million in the same period last year. This decline in revenue was primarily driven by the reasons discussed above.

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 decreased $2.2 million or 40.7% to $3.2 million for the 13-week period ended June 29, 2019 compared to $5.4 million in the same period last year, primarily driven by lower gift card breakage due to sustained 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 29, 2019**	13-week period ended June 30, 2018	% increase	Comparable sales % increase
Superstores	**135.5**	138.4	(2.1)	(6.5)
Small format stores	**25.1**	27.8	(9.7)	(2.4)
Online (including store kiosks)	**28.8**	33.8	(14.8)	(14.8)
Other[1]	**3.2**	5.4	(40.7)	N/A
Total	**192.6**	205.4	(6.2)	(7.6)

1 Includes cafés, irewards, gift card breakage, plum breakage, corporate sales, and Kobo revenue share.

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Total retail store revenue	**160.6**	166.2
Total online revenue	**28.8**	33.8
Adjustments for stores not in both fiscal periods	**(21.8)**	(18.6)
Total comparable sales	**167.6**	181.4

	Superstores		Small format stores	
(millions of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Total revenue by format	**135.5**	138.4	**25.1**	27.8
Adjustments for stores not in both fiscal periods	**(21.5)**	(16.4)	**(0.2)**	(2.3)
Comparable retail store sales	**114.0**	122.0	**24.9**	25.5

Revenue by product line is as follows:

	13-week period ended June 29, 2019	13-week period ended June 30, 2018
Print[1]	**59.6%**	57.6%
General merchandise[2]	**38.7%**	39.8%
Other[3]	**1.7%**	2.6%
Total	**100.0%**	100.0%

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

2 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue.

3 Includes cafés, irewards, gift card breakage, Plum breakage, corporate sales, and Kobo revenue share.

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 decreased $8.8 million to $108.7 million for the 13-week period ended June 29, 2019, compared to $117.5 million for the same period last year. As a percent of total revenue, cost of sales decreased 0.8% to 56.4% compared to 57.2% for the same period last year. This decrease was driven by a reduction in promotional discounting and improved inventory management, which together resulted in lower sales as discussed above, but was successful in improving margin rate compared to the same period last year.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations decreased by $15.4 million to $58.7 million for the 13-week period ended June 29, 2019, compared to $74.1 million for the same period last year. Excluding the IFRS 16 impact, cost of operations increased by $0.6 million from the prior year. As a percent of total revenue, normalized cost of operations increased by 2.7% to 38.8% this year, compared to 36.1% for the same period last year. Operating costs increased primarily due to the opening of four net-new superstores during fiscal 2019 as part of the Company's retail transformation.

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 decreased $1.7 million to $25.4 million for the 13-week period ended June 29, 2019, compared to $27.1 million for the same period last year. Excluding the IFRS 16 impact, selling, administrative, and other expenses decreased by $1.1 million. As a percent of total revenue, normalized selling, administrative, and other expenses increased by 0.3% to 13.5%, compared to 13.2% for the same period last year. Lower expenses in the quarter were driven by the Company's cost cutting initiatives and improvements in underlying operating performance, partially offset by higher severance costs associated with a reorganization of its workforce which began in the fourth quarter of last year.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment increased $13.1 million to a loss of $0.2 million for the 13-week period ended June 29, 2019, compared to a loss of $13.3 million for the same period last year. Excluding the IFRS 16 impact, adjusted EBITDA decreased $3.5 million. Normalized adjusted EBITDA, as a percent of revenue, decreased by 2.2% to a loss of 8.7% this year, compared to a loss of 6.5% for the same period last year. Lower adjusted EBITDA was driven by lower sales in support of the Company's strategic shift towards lower promotional activity and increased profitability, partially offset by the margin rate improvements achieved. A reconciliation of adjusted EBITDA to earnings (losses) before taxes has been included in the "Results of Operations" section of Management's Discussion and Analysis.

Capital Assets

Depreciation and amortization for the 13-week period ended June 29, 2019 increased by $11.7 million to $19.0 million compared to $7.3 million for the same period last year, which reflects the depreciation of the IFRS 16 right-of-use assets. Excluding the impact of IFRS 16, depreciation and amortization increased $1.8 million in the current period. The increase in normalized depreciation and amortization was driven by the additional capital expenditures made throughout fiscal 2019. Capital expenditures in the first quarter of fiscal 2020 totaled $5.3 million compared to $22.9 million for the same period last year. This decrease was a result of the completion of the Company's significant capital investment plan in fiscal 2019 to implement changes across Indigo's retail outlets, as well as investments in digital and supply chain. Capital expenditures for the first quarter of fiscal 2020 included $2.5 million for equipment and remaining retail store renovations, $2.5 million primarily for application software and internal development costs, and $0.3 million for technology equipment. None of the capital expenditures were financed through leases.

Net Interest Income (Expense)

The Company recognized net interest expense of $5.4 million for the 13-week period ended June 29, 2019, compared to $0.8 million of net interest income for the same period last year, which reflects the interest expense associated with the IFRS 16 lease liability. Excluding the impact of IFRS 16, net interest decreased by $0.1 million, remaining in an income position. The Company nets interest income against interest expense. Compared to the prior year, the Company generated lower interest income as a lower cash balance was maintained throughout the period in interest-bearing short-term investments.

Loss from Equity Investments

The Company uses the equity method to account for its investments in Calendar Club and Unplug and 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 equity investments of $0.8 million for the 13-week period ended June 29, 2019, compared to a net loss of $0.6 million recognized for the same period last year.

Income Taxes

The Company recognized a non-cash income tax recovery of $6.8 million for the 13-week period ended June 29, 2019, compared to recognizing a non-cash income tax recovery of $5.3 million for the same period last year, which includes the current tax impact of adopting IFRS 16. Excluding the impact of IFRS 16, the income tax recovery increased by $1.7 million.

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 statutory tax rate of 26.7% to calculate the income tax recovery for the first quarter of fiscal 2020. 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. The Company has reviewed the deferred tax asset balance alongside the Company's future income projections, and concluded that the asset should continue to be recognized.

Net Loss

The Company recognized a net loss of $19.1 million for the 13-week period ended June 29, 2019 ($0.69 net loss per common share), compared to a net loss of $15.4 million ($0.57 net loss per common share) for the same period last year. The impact of adopting IFRS 16 to the net loss position was an earnings improvement of $0.5 million. The overall increase in net loss was driven by the decline in top-line revenue as a result of less promotional discounting and increased capital asset amortization as a result of prior year investments in the Company's retail transformation and enhanced digital platforms.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) consists primarily of gains and losses related to hedge accounting and the Company's foreign currency translation adjustments. The Company has a formal hedging policy to mitigate foreign exchange risk, entering into contracts to manage the currency fluctuation risk associated with forecasted U.S. dollar expenses, primarily for general merchandise inventory purchases. Financial instruments used to mitigate risk include foreign exchange forward contracts. All contracts entered into during the 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 29, 2019, the Company entered into contracts with total notional amounts of C$32.8 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C$52.0 million in the prior year. As at June 29, 2019, the Company had remaining contracts in place representing a total notional amount of C$78.6 million and an unrealized net loss of $0.9 million, compared to a total notional amount of C$99.1 million and an unrealized net gain of $3.1 million as at June 30, 2018. During the 13-week period ended June 29, 2019, a net gain (net of taxes) of $0.5 million from settled contracts was reclassified from other comprehensive income to inventory and expenses, compared to 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							
(millions of Canadian dollars, except per share data)	**Q1 Fiscal 2020[2]**	Q4 Fiscal 2019	Q3 Fiscal 2019	Q2 Fiscal 2019	Q1 Fiscal 2019	Q4 Fiscal 2018[1]	Q3 Fiscal 2018[1]	Q2 Fiscal 2018[1]
Revenue	192.6	199.2	426.0	216.3	205.4	215.4	433.3	224.6
Total net earnings (loss)	(19.1)	(23.8)	21.5	(19.1)	(15.4)	(10.7)	42.6	(4.6)
Basic earnings (loss) per share	($0.69)	($0.86)	$0.80	($0.70)	($0.57)	($0.40)	$1.58	($0.17)
Diluted earnings (loss) per share	($0.69)	($0.86)	$0.79	($0.70)	($0.57)	($0.40)	$1.56	($0.17)

1 Balances were restated in fiscal 2019 as a result of the adioption of IFRS 15. Refer to Note 4 of the consolidated financial statements in the Company's fiscal 2019 Annual Report for additional information.

2 The Company implemented IFRS 16 *Leases*, on March 31, 2019 using the modified retrospective approach. As a result, the Company's first quarter of 2020 reflects lease accounting under IFRS 16, while the comparative quarters have not been restated. Refer to the "Results of Operations" section of this MD&A to assist with year-over-year variance analysis.

Overview of Consolidated Balance Sheets

Assets

As at June 29, 2019, total assets increased $415.8 million to $1,017.3 million, compared to $601.5 million as at June 30, 2018, which reflects the inclusion of the right-of-use asset as per IFRS 16 of $411.8 million and the deferred tax impact on adoption. Excluding the impact of IFRS 16, total assets decreased by $34.8 million. The decrease was primarily driven by a decrease in cash and cash equivalents, and short term investments, and inventory, partially offset by higher property, plant and equipment, intangible assets, and deferred tax assets. Cash, cash equivalents and short term investments decreased $64.6 million compared to the same period in the prior year as cash was used to fund the capital investment program undertaken in fiscal 2019. The decrease in inventories of $15.9 million was driven by stronger management of inventory levels and focus on direct-to-store procurement methods. Deferred tax assets increased by $14.9 million, excluding the impact of IFRS 16, primarily as a result of the net loss recognized in the previous four quarters. The increase in property, plant and equipment of $27.7 million and in intangible assets of $4.6 million was driven by investment in retail store renovations, distribution facilities, digital initiatives and software and internal development costs to support strategic initiatives primarily in the last three quarters of fiscal 2019.

On a fiscal year-to-date basis, total assets increased by $406.8 million to $1,017.3 million compared to $610.5 million as at March 30, 2019. Excluding the impact of IFRS 16, total assets decreased by $43.8 million. The decrease was driven by a $38.1 million net decrease in cash and cash equivalents and short-term investments, which is consistent with the seasonal nature of the business. Inventory also decreased by $10.7 million, from the continued focus on stronger management of inventory levels. This was partially offset by an increase in deferred tax assets of $7.4 million, relating to the net loss recognized in the period.

Liabilities

As at June 29, 2019, total liabilities increased $565.2 million to $776.5 million, compared to $211.3 million as at June 30, 2018, which reflects the impact of IFRS 16, including the recognition of the short-term lease liability of $43.8 million and long-term lease liability of $518.0 million. Excluding the impact of IFRS 16, total liabilities increased by $6.1 million. This increase was driven by a $6.8 million increase in unredeemed gift card liability due to sustained changes in customer redemption patterns.

On a fiscal year-to-date basis, total liabilities increased $536.2 million to $776.5 million compared to $240.3 million as at March 30, 2019. Excluding the impact of IFRS 16, total liabilities decreased $23.0 million primarily driven by a $27.1 million decrease in short-term and long-term accounts payable and accrued liabilities consistent with the discussed decrease in cash.

Equity

Total equity at June 29, 2019 decreased $149.4 million to $240.8 million, compared to $390.2 million as at June 30, 2018, which includes the adjustment to retained earnings for the adoption of IFRS 16 as at March 31, 2019. Excluding the impact of IFRS 16, total equity decreased by $40.9 million to $349.3 million. Over the last four quarters, excluding the impact of IFRS 16, the Company generated a net loss of $40.9 million. The company also had a $2.8 million increase in share capital, due to the exercise of stock options and a $1.0 million increase in contributed surplus, due to the issuance of new options. Accumulated other comprehensive income (loss) also decreased by $3.2 million primarily from changes on the Company's foreign currency hedge portfolio.

The weighted average number of common shares outstanding for the first quarter of fiscal 2020 was 27,496,588 compared to 27,124,594 for the same period last year. As at August 13, 2019, the number of outstanding common shares was 27,273,961 with a book value of $227.0 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 $97.1 million as at June 29, 2019, compared to $227.2 million as at June 30, 2018 and $164.1 million as at March 30, 2019. Excluding the impact of IFRS 16, the Company reported working capital of $142.2 million as at June 29, 2019. The decrease in working capital compared to the same period last year was primarily driven by the decrease in cash, cash equivalents and short-term investments and inventory, as previously discussed.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $11.1 million for the 13-week period ended June 29, 2019 compared to a decrease of $55.3 million in the same period last year. The increase in the current period was driven by cash flows generated from investing activities of $44.5 million, partially offset by cash used for operating activities of $17.1 million and cash used for financing activities of $16.1 million.

Cash Flows Used for Operating Activities

The Company used cash flows of $17.1 million for operating activities in the 13-week period ended June 29, 2019 compared to using $34.5 million in the same period last year, a decrease of $17.4 million. Excluding the impact of IFRS 16, the Company used cash flows for operating activities of $33.2 million in the period, a decrease of $1.3 million from the prior year. This was primarily driven by the Company using $17.5 million of cash for working capital for operations this quarter, compared to using $21.6 million of cash in the same period last year, partially offset by the increased net loss for the quarter. The decrease in cash used for working capital needs was primarily a result of the decrease in inventory on hand, partially offset by the decrease in accounts payables outstanding.

Cash Flows from (Used for) Investing Activities

The Company generated cash flows of $44.5 million for investing activities in the 13-week period ended June 29, 2019 compared to using $21.6 million in the same period last year, an increase of $66.1 million. The increase was driven by the maturity of $49.2 million of short-term investments in the period, and a smaller capital investment program in fiscal 2020. The Company invested $2.8 million in property, plant and equipment and $2.5 million in intangible assets, compared to $17.8 million and $5.2 million in the same period in the prior year, respectively.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Construction, renovations, and equipment	**2.5**	16.6
Intangible assets (primarily application software and internal development costs)	**2.5**	5.2
Technology equipment	**0.3**	1.1
Total	**5.3**	22.9

Cash Flows from (Used for) Financing Activities
The Company used cash flows of $16.1 million for financing activities in the 13-week period ended June 29, 2019 compared to generating $0.7 million in the same period last year, a decrease of $16.8 million. Excluding the impact of IFRS 16, the Company used no cash flows for financing activities in the period, a decrease of $0.7 million compared to the prior year. This was a result of no share-based compensation options being exercised 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 2020. 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; 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 measurement; 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 2019 Annual Report.

Accounting Standards Implemented in the First Quarter of Fiscal 2020

IFRS 16 Leases

Effective in the first quarter of fiscal 2020, the Company adopted IFRS 16, which introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 and supersedes IAS 17.

The Company adopted the standard on March 31, 2019, applying the requirements using the modified retrospective transition method, with the cumulative effect recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for substantially all operating leases where the company is a lessee.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

(millions of Canadian dollars)	As at March 30, 2019 IAS 17	IFRS 16 Adjustment	As at March 31, 2019 IFRS 16
Assets			
Right-of-use assets	–	407.5	407.5
Deferred tax assets	47.9	38.9	86.8
Liabilities			
Accounts payable and accrued liabilities	179.2	1.2	180.4
Short-term lease liabilities	–	43.1	43.1
Long-term accrued liabilities	4.7	(3.5)	1.2
Long-term lease liabilities	–	514.7	514.7
Equity			
Retained earnings	131.3	(109.1)	22.2

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company's incremental borrowing rate as of March 31, 2019. The weighted average rate applied to the lease liabilities recognized in the consolidated balance sheet as at March 31, 2019 was 4.52 percent.

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the Company's incremental borrowing rate at the date of initial application.

In applying IFRS 16, the Company has used the following practical expedients permitted by the standard:

- the exclusion of short-term leases and contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,
- the treatment of lease and non-lease components as a single lease component for the real estate class of assets,
- the onerous lease provisions recognized as at March 30, 2019 as an alternative to performing an impairment review on right-of-use assets as at March 31, 2019,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

The impact on the Company's statement of loss for the 13-week period ended June 29, 2019 is outlined in the Results of Operations section of this MD&A to assist with year-over-year variance analysis.

On completion of the IFRS 16 implementation, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future lease payments, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit rate interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods for which the Company has the right to use an underlying asset, together both with periods covered by an option to extend or terminate, if the Company is reasonably

certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not meet IFRS 16 measurement parameters are not included in the measurement of the lease liabilities and are recognized in cost of operations and selling, administrative, and other expenses as incurred.

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 March 31, 2019 and ended on June 29, 2019 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. The adoption of IFRS 16 in the first quarter of fiscal 2020 hinders the comparability of underlying performance with periods prior to the accounting standard adoption. A reconciliation of the IFRS 16 impact on the current year period was included in this report to reconcile adjusted EBITDA and reported net loss as stated in the Company's interim condensed consolidated financial statements to their values excluding the impact of the new accounting standard.

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

Indigo Books & Music Inc.
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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Heather Reisman
Chair and Chief Executive Officer

Craig Loudon
Chief Financial Officer and
Executive Vice President, Supply Chain

Dated as of the 13th day of August, 2019.

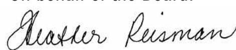
Consolidated Balance Sheets

(Unaudited)

(thousands of Canadian dollars)	**As at June 29, 2019**	As at June 30, 2018	As at March 30, 2019
ASSETS			
Current			
Cash and cash equivalents (note 5)	**52,344**	94,907	41,290
Short-term investments (note 5)	**38,000**	60,000	87,150
Accounts receivable	**12,325**	12,370	10,543
Inventories (note 6)	**241,868**	257,718	252,541
Prepaid expenses	**7,652**	6,845	5,802
Income taxes receivable	**573**	–	483
Derivative assets (note 7)	**–**	3,216	1,070
Other assets	**871**	922	853
Total current assets	**353,633**	435,978	399,732
Property, plant, and equipment, net	**122,362**	94,708	125,906
Right-of-use assets, net (note 3)	**411,752**	–	–
Intangible assets, net	**31,743**	27,184	32,527
Equity investments	**3,588**	3,163	4,359
Deferred tax assets (note 3)	**94,243**	40,431	47,940
Total assets	**1,017,321**	601,464	610,464
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities (note 3)	**154,886**	159,111	179,180
Unredeemed gift card liability	**48,794**	42,027	48,729
Provisions	**200**	160	60
Deferred revenue	**7,897**	7,180	7,636
Income taxes payable	**–**	152	–
Short-term lease liabilities (note 3 and 8)	**43,833**	–	–
Derivative liabilities (note 7)	**924**	106	–
Total current liabilities	**256,534**	208,736	235,605
Long-term accrued liabilities (note 3)	**1,877**	2,472	4,698
Long-term provisions	**45**	45	45
Long-term lease liabilities (note 3 and 8)	**518,028**	–	–
Total liabilities	**776,484**	211,253	240,348
Equity			
Share capital (note 9)	**225,531**	222,699	225,531
Contributed surplus (note 10)	**13,048**	12,041	12,716
Retained earnings (note 3)	**3,159**	153,196	131,311
Accumulated other comprehensive income (loss) (note 7)	**(901)**	2,275	558
Total equity	**240,837**	390,211	370,116
Total liabilities and equity	**1,017,321**	601,464	610,464

See accompanying notes

On behalf of the Board:



Heather Reisman, Director

Anne Marie O'Donovan, Director

Consolidated Statements of Loss and Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Revenue (note 11)	**192,556**	205,376
Cost of sales	**(108,682)**	(117,463)
Gross profit	**83,874**	87,913
Operating, selling, and administrative expenses (note 11)	**(103,571)**	(108,788)
Operating loss	**(19,697)**	(20,875)
Net interest income (expense) (note 3 and 8)	**(5,424)**	810
Share of loss from equity investments	**(773)**	(639)
Loss before income taxes	**(25,894)**	(20,704)
Income tax recovery	**6,824**	5,315
Net loss	**(19,070)**	(15,389)
Other comprehensive income (loss) (note 7)		
Items that are or may be reclassified subsequently to net loss:		
Net change in fair value of cash flow hedges (net of taxes of 368; 2018 – (554))	**(1,004)**	1,505
Reclassification of net realized gain (net of taxes of 167; 2018 – 16)	**(455)**	(45)
Other comprehensive income (loss)	**(1,459)**	1,460
Total comprehensive loss	**(20,529)**	(13,929)
Net loss per common share (note 12)		
Basic	**($0.69)**	($0.57)
Diluted	**($0.69)**	($0.57)

See accompanying notes

Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, March 31, 2018	221,854	11,621	168,585	815	402,875
Net loss	–	–	(15,389)	–	(15,389)
Exercise of options (note 9 and 10)	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
Balance, March 30, 2019	**225,531**	**12,716**	**131,311**	**558**	**370,116**
Adjustment on adoption of IFRS 16 (note 3)	**–**	**–**	**(109,083)**	**–**	**(109,083)**
Balance, March 31, 2019	**225,531**	**12,716**	**22,229**	**558**	**261,033**
Net loss	**–**	**–**	**(19,070)**	**–**	**(19,070)**
Share-based compensation (note 10)	**–**	**248**	**–**	**–**	**248**
Directors' compensation (note 10)	**–**	**84**	**–**	**–**	**84**
Other comprehensive loss (note 7)	**–**	**–**	**–**	**(1,459)**	**(1,459)**
Balance, June 29, 2019	**225,531**	**13,048**	**3,159**	**(901)**	**240,837**

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
CASH FLOWS USED FOR OPERATING ACTIVITIES		
Net loss	**(19,070)**	(15,389)
Adjustments to reconcile net loss to cash flows used for operating activities		
Depreciation of property, plant, and equipment and right-of-use assets (note 3)	**15,765**	5,127
Amortization of intangible assets	**3,266**	2,192
Loss on disposal of capital assets	**461**	240
Share-based compensation (note 10)	**248**	489
Directors' compensation (note 10)	**84**	89
Deferred income tax recovery	**(6,824)**	(5,406)
Other	**256**	(81)
Net change in non-cash working capital balances related to operations (note 13)	**(17,453)**	(21,623)
Interest expense (note 3 and 8)	**6,077**	3
Interest income	**(653)**	(813)
Share of loss from equity investments	**773**	639
Cash flows used for operating activities	**(17,070)**	(34,533)
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	**(2,849)**	(17,757)
Addition of intangible assets	**(2,482)**	(5,165)
Change in short-term investments	**49,150**	–
Distribution from equity investments	**–**	528
Interest received	**653**	813
Cash flows from (used for) investing activities	**44,472**	(21,581)
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES		
Repayment of principal on lease liabilities (note 3 and 8)	**(10,013)**	–
Interest paid (note 3 and 8)	**(6,078)**	–
Proceeds from share issuances (note 10)	**–**	688
Cash flows from (used for) financing activities	**(16,091)**	688
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(257)**	77
Net increase (decrease) in cash and cash equivalents during the period	**11,054**	(55,349)
Cash and cash equivalents, beginning of period	**41,290**	150,256
Cash and cash equivalents, end of period	**52,344**	94,907

See accompanying notes

Notes to Consolidated Financial Statements

June 29, 2019
(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 620 King Street West, Suite 400, Toronto, Ontario, M5V 1M6, Canada. The unaudited interim condensed 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 2019 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 2019 Annual Report. These statements reflect the adoption of IFRS 16 *Leases*, on March 31, 2019 using the modified retrospective method, with the cumulative effect initially recognized in retained earnings, with no restatement of prior comparative period. Please see "Adoption of IFRS 16" for further information.

The unaudited interim condensed consolidated financial statements for the 13-week period ended June 29, 2019 (including comparatives) were approved by the Board of Directors on August 13, 2019.

Significant Judgments and Estimates

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

Material judgments and estimates are made with respect to: revenue recognition from unredeemed gift cards and plum rewards program ("Plum") points; fair value of Plum points; inventory shrinkage; reserves for slow-moving or damaged products and products that have been permanently marked down; vendor settlement; fair value of share-based instruments and number of equity instruments expected to vest; identification of cash generating units ("CGUs") and expected future cash flows from CGUs; depreciation and amortization periods; lease recognition and measurement; 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 2019 Annual Report, with the exception of the accounting standards adopted in the year ending March 28, 2020. 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.

IFRS 16 *Leases*

Effective in the first quarter of fiscal 2020, the Company adopted IFRS 16, which introduces a single lessee accounting model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 and supersedes IAS 17.

The Company adopted the standard on March 31, 2019, applying the requirements using the modified retrospective transition method, with the cumulative effect recognized in retained earnings. Prior year figures were not restated, as permitted under the transition provisions in the standard, and continue to be reported under IAS 17. The adoption of IFRS 16 has resulted in the recognition of right-of-use assets and lease liabilities for substantially all operating leases where the company is a lessee.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

(millions of Canadian dollars)	As at March 30, 2019 IAS 17	IFRS 16 Adjustment	As at March 31, 2019 IFRS 16
Assets			
Right-of-use assets	–	407.5	407.5
Deferred tax assets	47.9	38.9	86.8
Liabilities			
Accounts payable and accrued liabilities	179.2	1.2	180.4
Short-term lease liabilities	–	43.1	43.1
Long-term accrued liabilities	4.7	(3.5)	1.2
Long-term lease liabilities	–	514.7	514.7
Equity			
Retained earnings	131.3	(109.1)	22.2

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company's incremental borrowing rate as of March 31, 2019. The weighted average rate applied to the lease liabilities recognized in the consolidated balance sheet as at March 31, 2019 was 4.52 percent.

The associated right-of-use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the Company's incremental borrowing rate at the date of initial application.

In applying IFRS 16, the Company has used the following practical expedients permitted by the standard:

- the exclusion of short-term leases and contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,
- the treatment of lease and non-lease components as a single lease component for the real estate class of assets,
- the onerous lease provisions recognized as at March 30, 2019 as an alternative to performing an impairment review on right-of-use assets as at March 31, 2019,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

The following table reconciles the operating lease commitments as at March 30, 2019 to the opening balance of lease liabilities as at March 31, 2019:

(millions of Canadian dollars)	Lease Liabilities
Operating lease commitments as at March 30, 2019	404.6
Adjustments as a result of different treatment of extension options and non-lease components	401.3
Adjustments as a result of short-term and low value asset leases exemptions	(13.1)
Effect of discounting using the Company's incremental borrowing rate	(239.7)
Contracts outside IAS 17 scope included in IFRS 16 Lease definition	4.8
Lease liabilities recognized as at March 31, 2019	557.9

On completion of the IFRS 16 implementation, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future lease payments, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit rate interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods for which the Company has the right to use an underlying asset, together both with periods covered by an option to extend or terminate, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Variable lease payments that do not meet IFRS 16 measurement parameters are not included in the measurement of the lease liabilities and are recognized in cost of operations and selling, administrative, and other expenses as incurred.

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 29, 2019 and June 30, 2018 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 29, 2019**	June 30, 2018	March 30, 2019
Cash	**50,519**	47,731	39,466
Restricted cash	**1,593**	2,093	1,593
Cash equivalents	**232**	45,083	231
Cash and cash equivalents	**52,344**	94,907	41,290

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 fiscal 2018.

As at June 29, 2019, the Company held short-term investments of $38.0 million (June 30, 2018 – $60.0 million; March 30, 2019 – $87.2 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 29, 2019 was $108.6 million (June 30, 2018 – $116.7 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 29, 2019 was $1.6 million (June 30, 2018 – $2.3 million). The amount of inventory with net realizable value equal to cost was $5.7 million as at June 29, 2019 (June 30, 2018 – $3.5 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 29, 2019, the Company entered into contracts with total notional amounts of C$32.8 million to purchase U.S. dollar/ Canadian dollar currency pair forwards (June 30, 2018 – C$52.0 million). As at June 29, 2019, the Company had remaining contracts in place representing a total notional amount of C$78.6 million (June 30, 2018 – C$99.1 million) at an average forward rate of 1.32 (June 30, 2018 – 1.27). These contracts extend over a period not exceeding 12 months. There were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the 13-week period ended June 29, 2019, as well as in the prior period.

The total fair value of the contracts as at June 29, 2019 resulted in the recognition of no derivative asset (June 30, 2018 – $3.2 million; March 30, 2019 – $1.1 million), and a derivative liability of $0.9 million (June 30, 2018 – $0.1 million; March 30, 2019 – $0.0 million).

During the period ended June 29, 2019, the Company had a net loss (net of taxes) from the change in fair value of outstanding cash flow hedges of $1.0 million (June 30, 2018 – net gain (net of taxes) of $1.5 million). During the same period, the Company reclassified a net gain (net of taxes) from settled contracts of $0.5 million from other comprehensive income to inventory and expenses (June 30, 2018 – net gain (net of taxes) of $0.1 million). This resulted in an other comprehensive loss for the period ended June 29, 2019 of $1.5 million (June 30, 2018 – comprehensive income of $1.5 million).

Reclassified amounts resulting from hedge ineffectiveness, as well any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial in the quarter ended June 29, 2019 and June 30, 2018.

8. LEASE LIABILITY

The following table reconciles the change in lease liabilities for the 13-week period ended June 29, 2019:

(millions of Canadian dollars)	Lease Liabilities
Balance as at March 31, 2019	557.8
Lease renewals included in the scope of IFRS 16	14.1
Accretion of lease liabilities	6.1
Repayment of interest and principle on lease liabilities	(16.1)
Balance as at June 29, 2019	561.9

9. SHARE CAPITAL

Share capital consists of the following:

	13-week period ended June 29, 2019		13-week period ended Juune 30, 2018		52-week period ended March 30, 2019	
	Number of shares	**Amount C$ (thousands)**	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**27,136,386**	**225,531**	26,800,609	221,854	26,800,609	221,854
Issued during the period						
Directors' deferred share units converted	–	–	–	–	4,021	60
Adjustment for share exchange per 2001 merger agreement	–	–	–	–	519	–
Options exercised	–	–	73,125	845	331,237	3,617
Balance, end of period	**27,136,386**	**225,531**	26,873,734	222,699	27,136,386	225,531

10. SHARE-BASED COMPENSATION

As at June 29, 2019, 1,689,038 stock options were outstanding with exercise prices ranging from $7.23 to $18.40. Of these outstanding stock options, 704,863 were exercisable at a weighted average exercise price of $15.36. As at June 30, 2018, there were 1,685,025 stock options outstanding of which 624,215 were exercisable.

The Company uses the fair value method of accounting for stock options, which estimates the fair value of the stock options granted on the date of grant, net of estimated forfeitures, and expenses this value over the vesting period. During the 13-week period ended June 29, 2019, the pre-forfeiture value of the options was $0.3 million (June 30, 2018 – no options granted).

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

	13-week period ended June 29, 2019	13-week period ended June 30, 2018
Black-Scholes option pricing assumptions		
Risk-free interest rate	**1.4%**	1.3%
Expected volatility	**31.5%**	31.4%
Expected time until exercise	**3.0 years**	3.0 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**26.9%**	27.1%

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 29, 2019 was in the form of DSUs (June 30, 2018 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. During the 13-week period ended June 29, 2019, the Company issued 10,704 DSUs with a value of $0.1 million (June 30, 2018 – 5,250 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 29, 2019 was $4.2 million (June 30, 2018 – $3.9 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 29, 2019**	13-week period ended June 30, 2018
Print[1]	**114,825**	118,352
General merchandise[2]	**74,574**	81,666
Other[3]	**3,157**	5,358
Total	**192,556**	205,376

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

2 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue.

3 Includes cafés, irewards, gift card breakage, plum breakage, corporate sales, and Kobo revenue share.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Superstores	**135,509**	138,419
Small format stores	**25,134**	27,823
Online (including store kiosks)	**28,756**	33,776
Other	**3,157**	5,358
Total	**192,556**	205,376

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Wages, salaries, and bonuses	**45,014**	45,429
Short-term benefits expense	**5,635**	5,735
Termination benefits expense	**1,890**	527
Retirement benefits expense	**445**	471
Share-based compensation	**248**	489
Total employee benefits expense	**53,232**	52,651

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 29, 2019 and June 30, 2018 diluted loss per share calculations.

13. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	**13-week period ended June 29, 2019**	13-week period ended June 30, 2018
Accounts receivable	**(1,782)**	(5,623)
Other assets	**(18)**	(57)
Inventories	**10,673**	6,868
Income taxes recoverable	**(90)**	–
Prepaid expenses	**(1,850)**	(2,721)
Accounts payable and accrued liabilities (current and long-term) and other[1]	**(24,852)**	(18,044)
Unredeemed gift card liability	**65**	(2,191)
Provisions (current and long-term)	**140**	(6)
Deferred revenue	**261**	151
Net change in non-cash working capital balances related to operations	**(17,453)**	(21,623)

1 This change has been impacted by the adoption of IFRS 16. Please see Note 3 of the unaudited condensed interim consolidated financial statements for further information.

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 29, 2019**	13-week period ended June 30, 2018
Wages, salaries, and bonus	**1,576**	2,019
Short-term benefits expense	**35**	39
Termination benefits expense	**793**	–
Retirement benefits expense	**20**	19
Share-based compensation	**95**	338
Directors' compensation	**84**	89
Total remuneration	**2,603**	2,504

Transactions with Shareholders

During the first quarter of fiscal 2020, 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 29, 2019, the Company paid $0.3 million for these transactions (June 30, 2018 – $0.8 million). As at June 29, 2019, Indigo had a nominal amount 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 (June 30, 2018 – $0.1 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 29, 2019, Indigo loaned $1.4 million to Calendar Club (June 30, 2018 – $4.3 million).

The Company had immaterial transactions with Unplug during the period.

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Toronto Stock Exchange

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