ANNUAL REPORT | For the 52-Week Period Ended March 31, 2012

As the **story** changes, a **new** chapter **unfolds.**

Indigo

Enrich your life™

Indigo Chapters Coles indigo.ca

The Indigo Mission

To provide our customers with the most inspiring retail and digital environments in the world for books and life-enriching products and experiences.

Indigo operates under the following banners:
Indigo Books & Music, *Chapters*, *The World's Biggest Bookstore*, *Coles*, *SmithBooks*, *Indigospirit*, *The Book Company*, and *chapters.indigo.ca*.
The Company employs approximately 6,500 people across the country.

!ndigo Enrich Your Life, Chapters, !ndigo, Coles and indigo.ca are trade marks of Indigo Books & Music Inc.

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Report of the CEO

Dear Shareholder,

2011 was a year filled with both significant accomplishment and significant challenge. Ours is an industry undergoing massive transformation – and by extension so are we.

When I wrote to you last I shared with you that we were focused on two major initiatives – growing Kobo and reshaping our core retail business to thrive in the age of eReading.

The following represents a summary of our progress in both areas.

Kobo

In January 2011, Kobo had approximately two million readers in over 100 countries. Over the course of the past year we grew our market to seven million readers. In June 2011, we successfully introduced our third generation eReader, the Kobo Touch which was subsequently rated by the editors of Wired Magazine as the best eReader in the world. Late in 2011, Indigo was approached by Japanese internet giant Rakuten who expressed interest in acquiring 100% of Kobo. This opportunity presented us with a very difficult decision. On the one hand we were exceedingly proud of what had been accomplished and hugely excited about the tremendous growth opportunity ahead. However, we were also sensitive to the oncoming headwinds presented by the demands of competing head-to-head against players with worldwide reach and endlessly deep pockets.

On balance and after deep consideration we believed that the best decision for both the incredible team we had built at Kobo and for the entire Indigo family would be to go forward with a transaction. On January 11, 2012, we concluded the sale of Kobo to Rakuten for US$ 315 million. Indigo received cash proceeds of US$146 million on a 24-month investment of $32 million.

Kobo was and is a real success story. And we are proud of all that the Indigo and Kobo teams accomplished together. We wish Kobo and Rakuten great success moving forward and look forward to a strong and ongoing collaboration here in Canada.

Indigo

The flip side of the Kobo story is that Indigo continues to experience the impact of customers who are transitioning from books to eBooks. Since the advent of eReading, approximately 18 percent of readers have changed their behavior. Industry projections suggest that this trend will continue and that within five years, as much as 50% of books will be read digitally.

Indigo has not been standing still. We have been planning for and investing in a process of reinvention – essentially reshaping our offering, our retail and online experience, our capabilities and our infrastructure. Today Indigo is first and foremost a bookseller. Moving forward we are becoming a unique and uniquely valued place for books and for life enriching, well designed, affordable products for home, gifting, kids and babies – the world's first lifestyle store inspired by culture makers, design leaders, and the aspirations of our customers.

This past year we took some important steps toward our new vision.

We launched our first collections of proprietary lifestyle home and baby products designed by our in-house design team. While we are still early in the development of our overall product line, initial response from our customers has been extremely positive and it is clear there is enormous potential for growth.

We implemented a major upgrade to our retail warehouse system making it fully capable of handling our evolving general merchandise mix. This effort follows a similar upgrade which we did in our online warehouse last year. Our supply chain is now best-in-class able to support our business both effectively and efficiently.

Inherent in these upgrades is also the potential for meaningful improvements in supply chain productivity – an effort which will kick into high gear this year.

We launched our free plum loyalty program as a companion to our paid irewards program. In just one year we grew our loyalty base from one million to 4.5 million customers with whom we can communicate on a regular basis. And we continue to grow this base every single day.

The plum program leverages investments we made in the past two years in customer database and relationship management … investments we know we will leverage moving forward. In today's world nothing is more important than being able to communicate one on one with customers in a manner which is meaningful to each. We have and will continue to invest in our loyalty and customer communications capability fully convinced that we will see the benefits both in sales and profitability.

Finally we are and continue to invest in enhancing skill and capability in our organization to meet the demands of our new vision. We strengthened capability in Supply Chain, in Human Resource Management, and in Merchandising and this effort will continue intensively over the next 18 months.

I feel it is important nonetheless to share with you, our shareholders, that the transformation we are embarked upon is a demanding multiyear effort. It will certainly take a few years before our operating financial results to return to pre-eBook levels and are poised for major new growth. I am however equally certain that the path we are on is the right one for our customers, our employees, and our shareholders.

Indigo Love of Reading Foundation

One of our Guiding Principles is the belief that we have a responsibility to give back to the communities in which we operate. This commitment is central to who we are and always will be.

The Indigo Love of Reading Foundation is where we most fulsomely reflect this commitment. I am proud to report to our shareholders that as of the writing of this report, the Indigo Love of Reading Foundation has contributed $13 million and over 1 million books to schools in financial need across the country. At the back of this report is a list of all the schools that have been touched by our Foundation since its inception in 2004.

We know through our ongoing contact with each of the schools who have become part of this effort that the Foundation has fundamentally changed the lives of the students who have had the benefit of the books and financial support we provide. We strongly believe that literacy is a right for all Canadians not just those with economic standing. And it is The Love of Reading Foundation's goal to support this belief. The Foundation's work is supported by Indigo, its employees and customers.

Looking Forward

Our agenda is set – to innovate and to transform Indigo for this new age. Our focus this year will be on enriching and strengthening our merchandise mix; on creating environments both in-store and online which fully engage our customers; and on meaningfully advancing the capability and productivity of our resources. We anticipate taking some important steps forward and fully expect there will be continuous learning and improvement along the way.

I want to take this opportunity to thank all of our employees who each day bring heart, soul and brainpower to this Company. Indigo is a family of incredible people all of whom are dedicated to seeing this Company thrive. I am personally indebted to all of you.

I look forward to reporting to you next year.

Heather Reisman
Chair and Chief Executive Officer

Management's Responsibility for Financial Reporting

Management of Indigo Books & Music Inc. ("Indigo") is responsible for the preparation and integrity of the consolidated financial statements as well as the information contained in this report. The following consolidated financial statements of Indigo have been prepared in accordance with International Financial Reporting Standards, which involve management's best judgments and estimates based on available information.

Indigo's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Company is responsible for both the integrity and objectivity of the consolidated financial statements, management is satisfied that the consolidated financial statements have been prepared according to and within reasonable limits of materiality and that the financial information throughout this report is consistent with these consolidated financial statements.

Ernst & Young LLP, Chartered Accountants, Licensed Public Accountants, serve as Indigo's auditors. Ernst & Young's report on the accompanying consolidated financial statements follows. Their report outlines the extent of their examination as well as an opinion on the consolidated financial statements. The Board of Directors of Indigo, along with the management team, have reviewed and approved the consolidated financial statements and information contained within this report.

Heather Reisman
Chair and Chief Executive Officer

Kay Brekken
Chief Financial Officer

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 29, 2012 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week periods ended March 31, 2012 and April 2, 2011. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein.

The Company's consolidated financial statements for the 52-week period ended March 31, 2012 are the first annual consolidated financial statements prepared in accordance with IFRS. Unless otherwise noted, all comparative prior period balances that were previously reported under Canadian Generally Accepted Accounting Principles ("Canadian GAAP" or "CGAAP") have been restated to conform with standards adopted as part of the Company's transition to IFRS.

This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes contained in the attached 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 10 provinces and one territory in Canada and offering online sales through its *www.chapters.indigo.ca* website. As at March 31, 2012, the Company operated 97 superstores under the banners *Chapters*, *Indigo* and the *World's Biggest Bookstore* and 143 small format stores, under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks*, *The Book Company*, and *Pistachio*. During fiscal 2012, the Company did not open any stores and closed seven small format stores. 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.

In February 2009, Indigo launched Shortcovers (*www.shortcovers.com*), a new digital destination which offered online and mobile services that provided instant access to books. In December 2009, Indigo transferred the net assets of Shortcovers into a new company, Kobo Inc. ("Kobo"). The Shortcovers website was renamed to *www.kobo.com* and Kobo provides instant access to books, newspapers, magazines and other digital content through its website. Kobo has launched localized instances of its website in several countries and offers its download service to users worldwide. Kobo also develops eReader devices which are sold through wholesale and retail channels.

On November 8, 2011, Indigo entered into an agreement with Rakuten, Inc. ("Rakuten") for Rakuten to acquire all the outstanding shares of Kobo on a fully diluted basis for an aggregate purchase price of US$315.0 million. The Company continued to eliminate all intercompany transactions until the sale was closed. The sale transaction was unanimously approved by the Board of Directors on November 8, 2011 and closed on January 11, 2012 following the satisfaction of all closing conditions. Indigo received net cash proceeds of US$146.1 million from the Kobo sale and recorded a pre-tax accounting gain of $164.5 million as part of discontinued operations.

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

The weighted average number of common shares outstanding for fiscal 2012 was 25,201,127 as compared to 24,874,199 last year. As at May 29, 2012, the number of outstanding common shares was 25,244,914 with a book value of $203.4 million. The number of common shares reserved for issuance under the employee stock option plan is 2,274,491 as at May 29, 2012. As at March 31, 2012, there were 1,372,400 stock options outstanding of which 574,900 were exercisable.

General Development of the Business

It has been 15 years since Indigo launched its first superstore with a commitment to enriching Canadians' lives through books and complementary products. Much has changed since then in both the book industry and the larger media environment that serves our customers. The online channel has expanded dramatically, offering consumers an increased number of titles at a lower cost than a traditional physical bookstore. In addition, the digital and mobile channels have provided consumers with a completely new reading platform with instant accessibility, huge selection and lower costs.

Indigo continues to be proactive in an industry that is undergoing dramatic change and is well underway to establishing itself as the world's first cultural department store. As such, we remain committed to our transformational agenda and continue to invest in our brand and the customer experience which will position Indigo for sustained growth. More specifically, our priorities remain focused on advancing the core retail business through adapting our physical stores, improving productivity, driving employee engagement and expanding our online presence.

The key strategies over the last three years and going forward are outlined below.

Adapting Our Physical Stores

To ensure that the offerings in our physical stores are rich and compelling, the Company continues to adjust and expand its product mix. Growth categories are mainly gift, lifestyle, kids and paper merchandise. This has been achieved through a reduction in the floor space allotted to books, given the erosion of physical book sales, as well as our ability to carry fewer on-hand quantities of books as a result of a more timely and efficient replenishment process.

To support the growth of our kids' business, the Company continues to expand its assortment of toys and games. At the end of fiscal 2012, the Company had dedicated toy sections within 62 of its superstores, compared to 53 in fiscal 2011, with the remaining superstores showcasing expanded toy offerings.

The Company also remains committed to expanding its proprietary product development capability, which primarily includes gift, lifestyle and paper merchandise. This initiative is part of the Company's focus on providing customers with increasingly meaningful and life-enriching merchandise while improving operating margins. To support this initiative, Indigo opened a new design office in New York in fiscal 2011, and a full line of proprietary merchandise developed by this team began appearing in stores in fiscal 2012.

Lastly, in fiscal 2012, the Company made changes to the irewards program, its fee-based loyalty program, and launched the plum rewards program ("Plum"), a free points-based loyalty program. Previously, discounts were only offered on books, however, with the program changes, discounts and points are now offered on virtually all products in the stores. The success of these programs creates direct marketing and communication opportunities with our best customers.

Driving Productivity Improvement

While a key focus of the Company's business is to evolve to meet the emerging needs of customers, the Company is also focused on driving productivity improvements. The challenge for the Company is to continually look for innovative ways to drive costs down while improving what we deliver to customers. In particular, over the last three years, the Company has focused on two major supply chain productivity initiatives designed to further reduce costs, deliver improved operating margins and improve service to customers.

In fiscal 2010, the first phase of a project was approved to open a new distribution facility and to deploy a new warehouse management system to serve as the fulfillment centre for the Company's online business. The 162,880 square foot facility opened in September 2010 and currently supports an increased assortment of books and general merchandise products for online customers.

In January, 2011, the Company began the second phase of the project, to upgrade the existing retail distribution facility to more efficiently support the retail stores. The project scope included replacing the warehouse management system and upgrading the material handling equipment. This project will be completed by the end of the first quarter of fiscal 2013.

Going forward, the Company continues to target processes for re-engineering, cost rationalization and improving customer value. During the latter half of fiscal 2012, the Company launched the "Galileo" project which identified numerous productivity opportunities and initiatives which are now well underway. These initiatives are championed by passionate employees with deep understandings that span across many key functions of the business. While change must be careful and calculated, the Company expects the benefits from these initiatives to begin in the first half of fiscal 2013.

Employee Engagement

Indigo's strategic efforts over the past three years have included a focus on employee engagement. Indigo continues to invest in training and development, and has worked to improve overall communication throughout the Company. The Company also launched a talent management software tool along with enhancements to existing human resources reporting tools in fiscal 2012 with completion of the project expected by the end of the first quarter of fiscal 2013. The Company realizes that sustaining high levels of employee engagement is a day in and day out, year over year responsibility and, accordingly, expects to continue to commit resources to specific initiatives designed to make Indigo one of the best places to work.

Online Development and Redesign

Reshaping Indigo's physical store offerings means the online store must also continue to adapt and change. As such, the redesign of the website also included a focus on the new growth categories of gift, lifestyle, kids and paper merchandise. The online redesign also included changes in merchandising to add eBooks, as well as a deeper assortment of entertainment categories including video games, electronics and accessories. The online initiative also includes changes in the Company's approach to communicating online. This creative, architectural, and development work for the online product-based redesign began in 2010 and has continued through 2011 and 2012. Given the significance and importance of Indigo's online business, regular redesign and development is expected. In fiscal 2012, new customer experience enhancements included a mobile-friendly website as well as capitalizing on social media integration with Facebook, Pinterest and Twitter.

To further improve the online customer experience, a new distribution centre dedicated to the online business opened in September 2010.

Results of Operations

The following three tables summarize selected financial and operational information for the Company 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 audited consolidated financial statements for the 52-week periods ended March 31, 2012 and April 2, 2011 and the 53-week period ended April 3, 2010.

Results from continuing operations exclude Kobo results, which are reported separately as discontinued operations. Kobo results for comparative periods have been reclassified as discontinued operations.

Key elements of the consolidated statements of earnings (loss) and comprehensive earnings (loss) for the periods indicated are shown in the following table:

(millions of Canadian dollars)	52-week period ended March 31, 2012	% Revenues	52-week period ended April 2, 2011	% Revenues
Revenues	**934.0**	**100.0**	956.4	100.0
Cost of sales	**544.9**	**58.3**	543.0	56.8
Cost of operations	**284.1**	**30.4**	282.8	29.6
Selling, administrative and other expenses	**78.6**	**8.4**	74.2	7.8
EBITDA[1]	**26.4**	**2.8**	56.4	5.9

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

Selected financial information of the Company for the last three fiscal years is shown in the following table:

(thousands of Canadian dollars, except per share data)	IFRS 52-week period ended March 31, 2012	IFRS 52-week period ended April 2, 2011	Canadian GAAP 53-week period ended April 3, 2010
Revenues			
Superstores	656,530	667,582	670,542
Small format stores	145,247	149,418	159,268
Online (including store kiosks)	93,221	90,617	92,180
Other	38,992	48,832	46,158
	933,990	956,449	968,148
Net earnings (loss) and comprehensive earnings (loss) for the period	66,189	(19,384)	34,923
Total assets	592,536	511,007	519,842
Long-term debt (including current portion)	2,201	3,285	3,037
Working capital	224,126	101,615	106,379
Basic earnings (loss) per share	$3.68	$(0.23)	$1.42
Diluted earnings (loss) per share	$3.64	$(0.23)	$1.39

Selected operating information of the Company for the last three fiscal years is shown in the following table:

	IFRS 52-week period ended March 31, 2012	IFRS 52-week period ended April 2, 2011	Canadian GAAP 53-week period ended April 3, 2010
Comparable Store Sales[1]			
Superstores	(1.9%)	(0.3%)	0.6%
Small format stores	(0.8%)	(3.2%)	(2.2%)
Stores Opened			
Superstores	–	1	6
Small format stores	–	–	–
	–	1	6
Stores Closed			
Superstores	–	–	–
Small format stores	7	1	6
	7	1	6
Number of Stores Open at Year-End			
Superstores	97	97	96
Small format stores	143	150	151
	240	247	247
Selling Square Footage at Year-End (in thousands)			
Superstores	2,235	2,235	2,217
Small format stores	400	413	417
	2,635	2,648	2,634

1 See “Non-IFRS Financial Measures”.

Revenue from Continuing Operations Decreased

Total consolidated revenues for the 52-week period ended March 31, 2012 decreased $22.4 million or 2.3% to $934.0 million from $956.4 million for the 52-week period ended April 2, 2011. The decrease was driven by declining book sales, the deferral of revenue related to Plum points earned by customers, higher sales discounts and reduced loyalty card sales, partially offset by lower loyalty discounts and growth in the gift, lifestyle, toy and eReader businesses. Revenue related to Plum points earned by customers is deferred until points are redeemed.

Comparable store sales for the fiscal year decreased 1.9% in superstores and 0.8% in small format stores. The decrease was mainly driven by the reasons mentioned above. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocation, and chain expansion. As at March 31, 2012, the Company operated seven fewer small format stores compared to April 2, 2011.

Online sales increased by $2.6 million or 2.9% to $93.2 million for the 52-week period ended March 31, 2012 compared to $90.6 million last year. The increase was due to increased promotional activity, and to increased sales of eBooks, eReaders, gift, lifestyle, and toy products.

Revenues from other sources include revenues generated through loyalty card sales, gift card breakage, Plum point breakage and revenues from Calendar Club. Revenues from other sources decreased $9.7 million or 19.9% to $39.1 million for the 52-week period ended March 31, 2012 compared to $48.8 million last year primarily as a result of lower loyalty income. Loyalty card sales have decreased as members moved to the free Plum rewards program.

Revenues by channel are highlighted below:

(millions of Canadian dollars)	**52-week period ended March 31, 2012**	52-week period ended April 2, 2011	% increase (decrease)	Comparable store sales % increase (decrease)
Superstores	**656.5**	667.6	(1.7)	(1.9)
Small format stores	**145.2**	149.4	(2.8)	(0.8)
Online (including store kiosks)	**93.2**	90.6	2.9	N/A
Other	**39.1**	48.8	(19.9)	N/A
	934.0	956.4	(2.3)	(1.7)

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

	Superstores		Small format stores	
(millions of Canadian dollars)	**52-week period ended March 31, 2012**	52-week period ended April 2, 2011	**52-week period ended March 31, 2012**	52-week period ended April 2, 2011
Total revenues	**656.5**	667.6	**145.2**	149.4
Adjustments for stores not in both fiscal periods	**(12.6)**	(11.0)	**(7.3)**	(10.3)
Comparable store sales	**643.9**	656.6	**137.9**	139.1

Cost of Sales from Continuing Operations Increased Compared to Last Year

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. For the 52-week period ending March 31, 2012, cost of sales increased $1.9 million to $544.9 million, compared to $543.0 million last year. The increase was driven by higher sales of low margin Kobo eReaders, inventory write-downs due to the summer and winter clearance sales and shipping more products directly to stores resulting in lower margin.

In order to increase traffic and sales conversions, the Company spent more on sales discounts, increasing cost of sales as a percent of total revenues by 1.5% to 58.3%, compared to 56.8% last year. The higher sales discounts were partially offset by an increase in vendor support programs.

Cost of Operations from Continuing Operations Increased

Cost of operations includes all store, online, distribution centre and Calendar Club costs. Cost of operations increased $1.3 million to $284.1 million this year, compared to $282.8 million last year. Occupancy costs increased as a result of decommissioning liabilities and onerous lease provisions recorded by the Company, and online expenses increased due to the impact of operating the online distribution centre for a full year. Last year, the online distribution centre was newly opened part way through the year. These increases were partially offset by lower distribution centre labour and freight costs due to a decrease in outbound distribution centre unit volume. The lower volume was due to more products being shipped directly to stores in the second and third quarters to ensure efficient retail distribution centre processing of fall and holiday merchandise. As a percent of total revenues, cost of operations increased by 0.8% to 30.4% this year, compared to 29.6% last year.

Selling, Administrative and Other Expenses from Continuing Operations Increased Compared to Last Year

Selling, administrative and other expenses include all marketing and head office costs. These expenses increased $4.4 million to $78.6 million, compared to $74.2 million last year. The increase was primarily driven by compensation expense paid to one Kobo Director, one Indigo Director (who also served on Kobo's board) and employees as a result of the sale of Kobo. Design costs have also increased compared to the prior year as the Company continued to expand its proprietary gift and lifestyle products, and marketing costs are higher due to increased promotional activities. As a percent of total revenues, selling, administrative and other expenses increased by 0.6% to 8.4%, compared to 7.8%.

EBITDA from Continuing Operations Decreased Compared to Last Year

EBITDA, defined as earnings before interest, taxes, depreciation, amortization and impairment decreased $30.0 million to $26.4 million for the 52-week period ended March 31, 2012, compared to $56.4 million for the 52-week period ended April 2, 2011. The decrease resulted from declining book sales, revenue deferrals relating to Plum, and a reduction in margin, as revenue growth from the sale of Kobo eReaders produces minimal margin. EBITDA as a percent of revenues decreased 3.1% to 2.8% this year from 5.9% last year.

Depreciation and Amortization from Continuing Operations Increased Compared to Last Year

Depreciation and amortization for the 52-week period ended March 31, 2012 increased by $0.7 million to $26.7 million compared to $26.0 million last year. Capital expenditures in fiscal 2012 totalled $21.0 million and included $10.1 million for store construction, renovations and equipment, $8.6 million for intangible assets (primarily application software and internal development costs), and $2.3 million for technology equipment. Of the $2.3 million expenditure in technology equipment, $0.3 million was financed through finance leases.

Impairment of Capital Assets

The Company assesses at each reporting date whether there is any indication that capital assets may be impaired. During fiscal 2012, the Company identified impairment indicators for certain cash-generating units ("CGUs") and groups of CGUs. For capital assets which can be reasonably and consistently allocated to individual stores, the store level is used as the CGU. As a result of identifying impairment indicators, the Company performed testing which resulted in the recognition and reversal of impairment losses. Recoverable amounts for CGUs being tested are based on value in use, which is calculated from discounted cash flow projections over the remaining lease terms, plus any renewal options where renewal is likely.

During fiscal 2012, the Company recognized $4.0 million in capital asset impairments, net of $0.8 million in impairment reversals. All of the impairment losses and reversals relate to Indigo's continuing operations and are spread across a number of CGUs at the store level; there were no impairment losses or reversals related to Kobo. Impairment losses arose due to stores performing at lower-than-expected profitability and impairment reversals arose due to improved store performance and the likelihood of lease term renewals.

Impairment of Goodwill

The Company assesses at each reporting date whether there is any indication that goodwill may be impaired. As at October 1, 2011, impairment indicators were identified. At that time, the Company had two operating segments: Indigo and Kobo. As a result of identifying impairment indicators, the Company performed a goodwill impairment test which resulted in a $25.4 million impairment charge for the Indigo segment. Unlike other asset impairments, goodwill impairment charges cannot be reversed once they are recorded.

The goodwill impairment test consisted of comparing the carrying value of assets within each CGU or group of CGUs to the recoverable amount of the CGU or group of CGUs. The group of CGUs used by the Company for impairment testing was at the operating segment level. The recoverable amount of the Indigo segment was measured by discounting the future cash expected to be generated. The discounted cash flow model was based on actual operating results, detailed sales and cost forecasts, and long-term growth rates which are consistent with inflation and general retail industry averages.

The Company also performed an impairment test on the Kobo segment. The recoverable amount of the Kobo segment was based on the market capitalization of Kobo. There was no impairment identified for the goodwill allocated to the Kobo segment.

Net Interest Income from Continuing Operations Remained Flat

The Company recognized net interest income of $0.3 million this year compared to net interest income of $0.3 million last year. The Company's higher average cash position in fiscal 2012 was offset by an increase in the Company's interest expense due to interest accretion on the notes payable. The Company had no notes payable in fiscal 2011. The Company nets interest income against interest expense.

Income Tax Expense from Continuing Operations Decreased from Last Year

The Company recognized an income tax recovery of $1.5 million this year compared to an income tax expense of $11.4 million last year. The Company recognized an income tax recovery in the current year as a result of the loss before income taxes compared to recognizing an expense as a result of earnings before income taxes last year.

Net Loss from Continuing Operations Recorded in Fiscal 2012

The Company recognized a net loss from continuing operations attributable to shareholders of the Company of $27.8 million for the 52-week period ended March 31, 2012 ($1.10 net loss per common share), compared to net earnings of $14.4 million ($0.58 net earnings per common share) last year. The decrease was primarily due to a $30.0 million decrease in EBITDA and non-cash impairment charges to goodwill and capital assets of $29.4 million. These decreases were partially offset by a $12.9 million reduction in income tax expense.

Net Earnings from Kobo Discontinued Operations

The Company recognized net earnings from discontinued operations attributable to shareholders of the Company of $120.5 million for the 52-week period ended March 31, 2012 ($4.78 net earnings per common share), compared to a net loss of $20.1 million ($0.81 net loss per common share) last year. The net earnings resulted from the sale of Kobo, as the Company's $164.5 million gain on selling its shares of Kobo, offset by a $16.3 million income tax expense, was recorded as part of discontinued operations. As a result of the sale, the Company disposed of the $1.2 million of goodwill allocated to the Kobo operating segment.

Non-controlling Interest

Up to, and including, January 10, 2011, Indigo continued to be the majority and controlling shareholder of Kobo and, as such, the results of Kobo were consolidated and non-controlling interest was recorded. The Company records non-controlling interest to its consolidated statements of earnings (loss) and comprehensive earnings (loss) to reflect the portion of Kobo's loss attributable to the minority shareholders of Kobo. On January 11, 2012, the Company completed the sale of Kobo and, as such, Kobo was no longer consolidated as at that date. From April 3, 2011 to January 10, 2012, the Company recorded $26.5 million of non-controlling interest for the portion of Kobo losses attributable to the minority shareholders, compared to $13.6 million in fiscal 2011. As a result of the sale, the Company records Kobo's results in its consolidated financial statements as discontinued operations.

Seasonality and Fourth Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the December holiday sales season. A disproportionate amount of revenues and profits are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year. The following table sets out revenues, net earnings (loss) attributable to shareholders of the Company, basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

	Fiscal quarters							
(thousands of Canadian dollars, except per share data)	**Q4 Fiscal 2012**	Q3 Fiscal 2012	Q2 Fiscal 2012	Q1 Fiscal 2012	Q4 Fiscal 2011	Q3 Fiscal 2011	Q2 Fiscal 2011	Q1 Fiscal 2011
Revenues	**195,879**	352,858	197,248	188,005	200,160	351,225	206,332	198,732
Net earnings (loss) attributable to shareholders of the Company								
From continuing operations	**(10,726)**	23,711	(28,849)	(11,963)	(11,745)	26,950	2,219	(3,032)
From discontinued operations	**142,253**	(9,349)	(6,271)	(6,142)	(7,696)	(6,123)	(3,987)	(2,328)
Total net earnings (loss)	**131,527**	14,362	(35,120)	(18,105)	(19,441)	20,827	(1,768)	(5,360)
Basic earnings (loss) per share	**$5.21**	$0.57	$(1.39)	$(0.72)	$(0.78)	$0.84	$(0.07)	$(0.22)
Diluted earnings (loss) per share	**$5.16**	$0.56	$(1.39)	$(0.72)	$(0.78)	$0.82	$(0.07)	$(0.22)

The Company saw a decline in consolidated revenues in the fourth quarter of fiscal 2012 for the same reasons as those discussed above for the fiscal year. Revenues decreased by $4.3 million, or 2.1%, to $195.9 million compared to $200.2 million in the same quarter last year. Online sales increased by $0.5 million, or 2.3%, to $22.2 million in the fourth quarter of fiscal 2012 from $21.7 million last year. Comparable store sales decreased 2.2% in superstores and decreased 0.8% in small format stores.

Net loss from continuing operations in the fourth quarter of fiscal 2012 decreased by $1.0 million, or 8.5%, to $10.7 million compared to $11.7 million in the same quarter last year. The improvement was mainly driven by a higher income tax recovery in the fourth quarter of fiscal 2012, compared to the same quarter last year. Net earnings from discontinued operations were $142.3 million in the fourth quarter of fiscal 2012 compared to a net loss of $7.7 million in the same quarter last year. The increase was driven by the gain from the sale of Kobo, as discussed above.

Overview of Consolidated Balance Sheets

Total Assets

As at March 31, 2012, total assets increased $81.5 million to $592.5 million, compared to $511.0 million as at April 2, 2011. As at March 31, 2012, the sale of Kobo had been completed and Kobo was no longer consolidated on the Company's balance sheet. Comparatively, as at April 2, 2011, the Company's consolidated balance sheet included $40.3 million of assets related to Kobo. Indigo's total assets related to continuing operations increased $121.9 million. The increase was primarily due to

increases in cash and deferred tax assets, partially offset by decreases in goodwill and property, plant and equipment. The Company's cash balance increased by $147.9 million compared to last year as a result of the sale of Kobo. Deferred tax assets increased by $10.6 million compared to last year, primarily as the result of the Company's purchases of tax losses from a related company during the first half of fiscal 2012. Goodwill decreased by $26.6 million as a result of the impairment write-down in fiscal 2012 and the disposal of goodwill allocated to Kobo. The Company's property, plant and equipment decreased $10.0 million primarily due to impairment charges recorded during fiscal 2012 and at the end of last fiscal year.

Total Liabilities

As at March 31, 2012, total liabilities decreased $6.7 million to $236.9 million, compared to $243.6 million as at April 2, 2011. As at March 31, 2012, the sale of Kobo had been completed and Kobo was no longer consolidated on the Company's balance sheet. Comparatively, as at April 2, 2011, the Company's consolidated balance sheet included $22.0 million of liabilities related to Kobo. Indigo's total liabilities related to continuing operations increased $14.8 million. The increase was primarily a result of an increase in current and long-term accounts payable and accrued liabilities. The $14.6 million increase in current and long-term accounts payable and accrued liabilities is a result of the timing of year end in fiscal 2012. Last year, the fiscal year ended at the beginning of the month, which resulted in the payment of various liabilities. In fiscal 2012, year end fell at the end of the month and these liabilities remained outstanding.

Non-controlling Interest

As at March 31, 2012, the Company had no non-controlling interest on its consolidated balance sheet compared to non-controlling interest of $10.4 million as at April 2, 2011. Non-controlling interest related solely to Kobo. As a result of the sale of Kobo during fiscal 2012, the Company no longer consolidated Kobo and therefore no longer recorded non-controlling interest on its consolidated balance sheet. Last year, 41.7% of Kobo was owned by minority shareholders, which resulted in the non-controlling interest balance of $10.4 million as at April 2, 2011. The Company has recorded the results of Kobo in its consolidated financial statements as discontinued operations.

Total Equity

Total equity at March 31, 2012 increased $88.2 million to $355.6 million, compared to $267.4 million as at April 2, 2011. The increase in total equity was primarily due to the $164.5 million pre-tax gain on sale of Kobo and an increase of $15.0 million in retained earnings related to the purchase of tax losses from a related company in fiscal 2012, offset by the net loss from continuing operations of $27.8 million and $11.1 million of dividend payments. Share capital increased by $1.2 million due to the exercise of stock options and the redemption of Directors' deferred share units. Contributed surplus increased $1.0 million due to the expensing of employee stock options and Directors' deferred share units. Non-controlling interest decreased by $10.4 million compared to last year, as discussed above.

Working Capital and Leverage

The Company reported working capital of $224.1 million as at March 31, 2012, compared to $101.6 million as at April 2, 2011 and $112.6 million as at April 4, 2010. The increase in the Company's working capital is primarily the result of cash proceeds received from the sale of Kobo.

The Company's leverage position (defined as Total Liabilities to Total Equity) decreased to 0.7:1 at the end of the current quarter compared to 0.9:1 as at April 2, 2011 and 0.9:1 as at April 4, 2010. The decreased leverage position was the result of liabilities decreasing while equity increased significantly. The increase in equity was primarily the result of the Company's gain on the sale of Kobo.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $123.9 million during fiscal 2012 compared to a decrease of $20.2 million last year. The increase in fiscal 2012 was driven by cash flows from financing activities of $176.1 million, along with the effect of foreign currency exchange rate changes on cash and cash equivalents of $0.4 million, partially offset by cash flows used in investing activities of $40.1 million and operating activities of $12.5 million.

Cash Flows from Operating Activities

The Company used cash flows of $12.5 million for operating activities in fiscal 2012 compared to cash flows generated from operating activities of $18.1 million last year. The Company used $56.9 million and $14.3 million in Kobo discontinued operations this year and last year, respectively. Excluding the cash flows used by Kobo, cash flows from operating activities for continuing operations was $44.4 million this year compared to $32.3 million last year, an increase of $12.0 million. Cash flow for the current year was primarily generated from $16.9 million of changes in non-cash working capital balances, non-cash impairment charges of $29.4 million and non-cash depreciation and amortization of $26.7 million, offset by net loss from continuing operations of $27.8 million. The $16.9 million improvement in non-cash working capital balances were driven by increases in current and long-term accounts payable and accrued liabilities, inventories, and prepaid expenses.

Cash Flows from Investing Activities

The Company used cash flows of $40.1 million for investing activities in fiscal 2012, of which $8.9 million related to cash used by Kobo discontinued operations. This was a decrease of $2.8 million over the same period last year, when cash flows used in investing activities were $43.0 million. The Company used $10.6 million in fiscal 2012 to purchase non-capital tax losses from a related company. There was no such transaction in fiscal 2011.

Total cash spent on capital projects in fiscal 2012 was $29.6 million compared to $43.0 million spent last year, as outlined below:

(millions of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Store construction, renovations and equipment	10.1	22.1
Intangible assets (primarily application software and internal development costs)	8.6	10.8
Technology equipment	2.0	2.5
Capital expenditures of discontinued operations	8.9	7.6
	29.6	43.0

Cash Flows from Financing Activities

The Company generated cash flows of $176.1 million from financing activities in fiscal 2012, of which $74.8 million related to cash generated from Kobo discontinued operations. This was an increase of $170.4 million over the same period last year, when cash flows from financing activities were $5.8 million. In fiscal 2012, the Company generated $115.9 million of net cash flows from the sale of Kobo. Cash flows from these activities were partially offset by cash used to pay $11.1 million of dividends. Last year, the Company had $35.1 million of financing cash flows from Kobo discontinued operations to offset $19.3 million of share purchases in Kobo and $10.9 million of dividend payments.

Liquidity and Capital Resources

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

The Company's contractual obligations due over the next five years are summarized below:

(millions of Canadian dollars)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Finance lease obligations	1.1	1.1	–	–	2.2
Operating leases	58.5	77.4	37.0	22.8	195.7
Total obligations	59.6	78.5	37.0	22.8	197.9

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position, cash flow generated from operations and cash from the Company's operating line of credit to be sufficient to meet its working capital needs, debt service requirements and dividend payments for fiscal 2013. In addition, Indigo has the ability to reduce capital spending to fund debt requirements if necessary; however, a long-term decline in capital expenditures may negatively impact revenues and profit growth. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors. Dividends may be reduced or eliminated if required to maintain appropriate capital resources.

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

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of the consolidated financial statements requires the Company to use judgment and estimation to assess the effects of several variables that are inherently uncertain. These judgments and estimates can affect the reported amounts of assets, liabilities, revenues, and expenses. The Company bases its judgments and estimates on historical experience and other assumptions which management believes to be reasonable under the circumstances. The Company also evaluates its judgments and estimates on an ongoing basis. Methods for determining all material judgments and estimates are consistent with those used in prior periods. The critical accounting judgments and estimates and significant accounting policies of the Company are described in notes 3 and 4 of the consolidated financial statements.

The following items in the consolidated financial statements involve significant judgment or estimation.

Use of judgment

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses are discussed below. Information about significant estimates is discussed in the following section.

Impairment

An impairment loss is recognized for the amount by which the carrying amount of an asset or a cash-generating unit ("CGU") exceeds its recoverable amount. The Company uses judgment when identifying CGUs and when assessing for indicators of impairment.

Intangible assets

Initial capitalization of intangible asset costs is based on the Company's judgment that technological and economical feasibility are confirmed and the project will generate future economic benefits by way of estimated future discounted cash flows that are being generated.

Leases

The Company uses judgment in determining whether a lease qualifies as a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Deferred tax assets

The recognition of deferred tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by the Company based on the specific facts and circumstances.

Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make estimates and assumptions in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the estimates made by the Company, and actual results will seldom equal estimates. Information about estimates that have the most significant effect on the recognition and measurement of assets, liabilities, revenues, and expenses are discussed below.

Revenues

The Company recognizes revenue from unredeemed gift cards ("gift card breakage") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average gift card breakage rate based on historical redemption rates. The resulting revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift cards are sold.

The Indigo plum rewards program allows customers to earn points on their purchases. The fair value of Plum points is calculated by multiplying the number of points issued by the estimated cost per point. The estimated cost per point is based on many factors, including the expected future redemption patterns and associated costs. On an ongoing basis, the Company monitors trends in redemption patterns and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity. To the extent that estimates differ from actual experience, Plum costs could be higher or lower. The Company also recognizes revenue from unredeemed Plum points ("points breakage") if the likelihood of redemption by the customer is considered to be remote. The Company determines its average points breakage rate based on historical redemption rates and industry data. Points breakage is netted against the fair value of Plum points.

Inventories

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and records reserves for slow-moving or damaged products and for products that have been permanently marked down based on these assumptions. The Company reviews the reserves regularly and assesses whether they are appropriate based on actual experience. In addition, the Company records a vendor settlement accrual to cover any disputes between the Company and its vendors. The Company estimates this reserve based on historical experience of settlements with its vendors.

Share-based payments

The cost of equity-settled or cash-settled transactions with counterparties is based on the Company's estimate of the fair value of share-based instruments and the number of equity instruments that will eventually vest. The Company's estimated fair value of the share-based instruments is calculated using the following variables: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. Risk-free interest rate is based on Government of Canada bond yields, while all other variables are estimated based on the Company's historical experience with its share-based payments.

Impairment

To determine the recoverable amount of an impaired asset, the Company estimates expected future cash flows at the CGU level and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, the Company makes assumptions about future sales, gross margin rates, expenses, capital expenditures, and working capital investments which are based upon past and expected performance. Determining the applicable discount rate involves estimating appropriate adjustments to market risk and to Company-specific risk factors.

Property, plant and equipment and intangible assets (collectively, "capital assets")

Capital assets are depreciated over their useful lives, taking into account residual values where appropriate. Assessments of useful lives and residual values are performed annually and take into consideration factors such as: technological innovation; maintenance programs; and relevant market information. In assessing residual values, the Company considers the remaining life of the asset, its projected disposal value, and future market conditions.

Transition to IFRS

The Company has adopted IFRS for its 2012 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. These financial statements, including the fiscal 2011 comparative figures, are prepared in accordance with IFRS.

The Company has provided a detailed explanation of the impacts of its IFRS transition in note 25 of the consolidated financial statements. This note includes reconciliations prepared in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards" and explanatory notes. The conversion to IFRS resulted in an increase of $9.8 million to retained earnings as at April 4, 2010 and a decrease of $7.3 million to retained earnings as at April 2, 2011.

New Accounting Pronouncements

Income Taxes ("IAS 12")

The IASB has issued an amendment to IAS 12 that introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company will apply this amendment beginning in the first quarter of fiscal 2013. The Company currently has no investment properties and, as such, does not expect the implementation of the amendment to have an impact on its consolidated financial statements.

Presentation of Financial Statements ("IAS 1")

The IASB has issued amendments to IAS 1 which will require companies to group together items within other comprehensive earnings which may be reclassified to net earnings. The amendments are effective for annual periods beginning on or after July 1, 2012 and must be applied retrospectively. The Company will apply these amendments beginning in the first quarter of fiscal 2014. The Company does not expect implementation of these amendments to have a significant impact on its consolidated statements of earnings (loss) and comprehensive earnings (loss).

Financial Instruments: Disclosures ("IFRS 7")

The IASB has issued amendments to IFRS 7 that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendments beginning in the first quarter of fiscal 2013. The IASB has also issued amendments regarding the offsetting of financial instruments. These amendments are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company will apply these amendments beginning in the first quarter of fiscal 2014. The Company does not expect implementation of these amendments to have a significant impact on its disclosures.

Financial Instruments: Presentation ("IAS 32")

The IASB has issued amendments to IAS 32 that clarify its requirements for offsetting financial instruments. These amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. The Company will apply these amendments beginning in the first quarter of fiscal 2015. The Company does not expect implementation of these amendments to have a significant impact on its presentation.

Financial Instruments ("IFRS 9")

The IASB has issued a new standard, IFRS 9, which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. Issuance of IFRS 9 is part of the first phase of the IAS 39 replacement project. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Company has yet to assess the impact of the new standard on its consolidated financial statements.

Other Standards

On May 12, 2011, the IASB issued four new standards along with amendments to two standards, all of which are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, but the new standards and amendments must all be adopted concurrently, with the exception of IFRS 12, "Disclosure of Interests in Other Entities," which may be early adopted on its own. The Company has yet to fully assess the impact of the new standards and amendments on its consolidated financial statements. The Company expects to adopt these new standards and amendments in the first quarter of fiscal 2014. The following is a list and description of these new standards and amendments:

- Consolidated Financial Statements ("IFRS 10") establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 establishes a single control model that applies to all entities. Kobo was the only entity which would have been consolidated by the Company under this standard and the sale of Kobo closed on January 11, 2012. As such, this standard is not expected to apply unless the Company acquires another entity before adoption of this standard;
- Joint Arrangements ("IFRS 11") replaces IAS 31, "Interests in Joint Ventures" ("IAS 31") and SIC-13, "Jointly-controlled Entities – Non-monetary Contributions by Venturers," and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Currently, the Company

accounts for its interest in Calendar Club under IAS 31 using proportionate consolidation. However, based on a preliminary analysis completed by the Company, its interest in Calendar Club will meet the definition of a joint venture under IFRS 11 and will need to be accounted for using the equity method beginning in fiscal 2014;

- Disclosure of Interests in Other Entities ("IFRS 12") includes all of the disclosures that were previously in IAS 27, "Separate Financial Statements," IAS 31 and IAS 28, "Investments in Associates." These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Under IFRS 12, an entity is required to disclose the judgments made to determine whether it controls another entity. This new standard is expected to increase disclosures related to Calendar Club;
- Fair Value Measurement ("IFRS 13") provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not, fair value. The Company currently has no financial or non-financial items which are measured at fair value. As such, this standard is not expected to have a significant impact on the Company's consolidated financial statements;
- Separate Financial Statements ("IAS 27") has been amended to remove all requirements relating to consolidated financial statements. Prior to this amendment, the Company applied IAS 27 to the preparation of its consolidated financial statements. However, as Indigo does not prepare separate financial statements, the amended IAS 27 will no longer be applicable to the Company; and
- Investments in Associates and Joint Ventures ("IAS 28") has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11. The amendments to IAS 28 relate to accounting for associates and joint ventures held for sale, and to changes in interests held in associates and joint ventures. Currently, neither of these scenarios applies to the Company and, as such, these amendments are not expected to have an impact on the Company's consolidated financial statements.

Risks and Uncertainties

Competition

The retail book selling business is highly competitive and continues to experience fundamental change. Specialty bookstores, independents, other book superstores, regional multi-store operators, supermarkets, drug stores, warehouse clubs, mail order clubs, Internet booksellers, mass merchandisers and other retailers continue to sell and even expand physical book offerings, often at substantially discounted prices. This increased competition may negatively impact revenues and margins of the Company.

The digital book industry is also highly competitive and is undergoing rapid growth. The number of retailers selling eBooks has increased, as have the number of retailers selling eReaders. The technology continues to change, with eReader technology gaining popularity on tablets and mobile devices and new eReading devices being released with expanded capabilities. As the digital book industry continues to expand, and change, increased eBook sales continue to negatively impact physical book sales. As eBooks are priced lower than physical books, consumers may reduce their future purchases of physical books in favour of eBooks, which could reduce the Company's revenues.

Aggressive merchandising or discounting by competitors in the retail, online or digital sectors could reduce the Company's revenues, market share and operating margins.

Company Transformation

As customers shift spending towards eBooks, the Company continues to adjust its merchandise mix to grow general merchandise categories to offset the erosion of physical book sales and margins. The Company will continue to change and modify this strategy and there can be no assurances that the Company strategy will be successful. Furthermore, the Company's expansion into new markets and non-traditional products could place a significant strain on our management, operations, technical performance, financial resources and internal financial control and reporting functions. There can be no assurances that the Company will be able to manage this effectively or that customer service or the Company's reputation will not be compromised.

Relationships with Suppliers

The Company relies heavily on suppliers to provide book and general merchandise at appropriate margins and in accordance with agreed-upon terms and timelines. Failure to maintain favorable terms and relationships with suppliers, the absence of key suppliers or delays in our ability to acquire books or merchandise on time may affect our ability to compete in the marketplace. This is especially true as the Company continues to source a greater portion of its products from overseas, and events causing disruptions of imports, restrictions or currency fluctuations could negatively impact revenues and margins of the Company.

Product Quality and Product Safety

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to potential liabilities and costs associated with defective products, product handling and product safety. These risks could expose the Company to product liability claims, damage the Company's reputation and lead to product recalls. Although the Company has policies and controls in place to manage these risks, including maintaining liability insurance, liabilities and costs related to product quality and product safety may have a negative impact on the Company's revenues and financial performance.

Leases

The average unexpired lease term of Indigo's superstores and small format stores is approximately 3.0 years and 2.4 years, respectively. The Company attempts to renew these leases as they come due on favourable terms and conditions, but is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred as a result of unanticipated store closing and relocation could unfavourably impact the Company's performance.

Technology and Online

Information management and technology are key to the ongoing competitiveness and daily operation of our business. If our investment in technology fails to support our growth initiatives or to keep pace with technological changes our competitiveness may be compromised. If systems are damaged or cease to function properly, capital investment may be required and the Company may suffer business interruptions in the interim. Such systems and controls are pervasive throughout our business, and failures in the maintenance or development of them could have a significant adverse effect on our business.

Dependence on Key Personnel

Indigo's continued success will depend to a significant extent upon its management group. The loss of the services of key personnel, particularly Ms. Reisman, could have a material adverse effect on Indigo.

Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions in the economy. A decline in consumer spending, especially over the December holiday season, could have an adverse effect on the Company's financial condition. Other variables, such as unanticipated increases in merchandise costs, increases in labour costs, increases in shipping rates or interruptions in shipping service, higher interest rates or unemployment rates, could also unfavourably impact the Company's financial performance.

External Events

Weather conditions, as well as events such as political or social unrest, natural disasters, disease outbreaks, or acts of terrorism, could have a material adverse effect on the Company's financial performance. Moreover, if such events were to occur at peak times in the Company's annual business cycle, the impact of these events on operating performance could be significantly greater than they would otherwise have been.

Regulatory Environment

The distribution and sale of products is regulated by a number of laws and regulations. Changes to statutes, laws, regulation or regulatory policies, or changes in their interpretation, implementation or enforcement, could adversely affect the Company's operations and performance. The Company may also incur significant costs in the course of complying with any changes to applicable regulations. Failure to comply with applicable regulations could result in judgment, sanctions or financial penalties that could adversely impact the Company's reputation and financial performance. The Company believes that it has taken reasonable measures designed to ensure compliance with applicable regulations, but there is no assurance that the Company will always be deemed to be in compliance.

Additionally, the distribution and sale of books is a regulated industry in which foreign ownership is generally not permitted under the Investment Canada Act. As well, the sourcing and importation of books is governed by the Book Importation Regulations to the Copyright Act (Canada). There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada. An increased number of competitors could have an adverse effect on the Company's financial performance.

Credit, Foreign Exchange, and Interest Rate Risks

The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. Accounts receivable primarily consists of receivables from retail customers who pay by credit card, recoveries of credits from suppliers for returned or damaged products, and receivables from other companies for sales of products, gift cards and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

The Company's foreign exchange risk from continuing operations is largely limited to currency fluctuations between the Canadian and U.S. dollar. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to our customers is set in Canadian dollars.

The Company's interest rate risk is limited to the fluctuation of floating rates on its revolving line of credit. Since the Company does not intend to draw on its revolving line of credit in the coming year, it does not consider its exposure to interest rate risk to be material. The Company does not use any interest rate swaps to fix the floating interest rate on its line of credit.

Legal Proceedings

In the normal course of business, Indigo becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at March 31, 2012 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Compliance with Privacy Laws

In Canada, the Personal Information Protection and Electronic Documents Act ("PIPEDA") was passed into law by the federal government effective as of January 1, 2001. Currently, this law applies to all organizations that collect, use or disclose personal information in the course of commercial activities, except to the extent that provincial privacy legislation has been enacted and declared substantially similar to the federal legislation. To date, certain provinces have enacted "substantially similar" private sector privacy legislation. The federal privacy legislation also regulates the inter-provincial collection, use and disclosure of personal information. Applicable Canadian privacy laws create certain obligations on organizations that handle personal information, including obligations relating to obtaining appropriate consent, limitations on use and disclosure of personal information and ensuring appropriate security safeguards are in place. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individual customers and employees. Although the Company has implemented systems to comply with applicable privacy laws in connection with the collection, use and disclosure of such personal information, if a significant failure of such systems was to occur, the Company's business and reputation could be adversely affected.

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. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 31, 2012.

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 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at March 31, 2012.

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 January 1, 2012 and ended on March 31, 2012 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"). In order to provide additional insight into the business, the Company has also provided non-IFRS data, including comparable store sales and EBITDA, in the discussion and analysis section above. These measures are specific to Indigo and have no standardized meaning prescribed by IFRS. Therefore, these measures may not be comparable to similar measures presented by other companies.

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

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

(millions of Canadian dollars)	**52-week period ended March 31, 2012**	52-week period ended April 2, 2011
EBITDA	**26.4**	56.4
Depreciation of property, plant and equipment	**18.4**	18.4
Amortization of intangible assets	**8.2**	7.7
Impairment of capital assets	**4.0**	4.9
Impairment of goodwill	**25.4**	0.0
Interest on long-term debt and financing charges	**0.2**	0.2
Interest income on cash and cash equivalents	**(0.5)**	(0.5)
Earnings (loss) before income taxes	**(29.3)**	25.7

Independent Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

We have audited the accompanying consolidated financial statements of Indigo Books & Music Inc., which comprise the consolidated balance sheets as at March 31, 2012, April 2, 2011 and April 4, 2010, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years ended March 31, 2012 and April 2, 2011 and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Indigo Books & Music Inc. as at March 31, 2012, April 2, 2011 and April 4, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and April 2, 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 29, 2012

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at March 31, 2012	As at April 2, 2011	As at April 4, 2010
ASSETS			
Current			
Cash and cash equivalents (note 6)	**207,601**	83,661	103,898
Accounts receivable	**12,627**	12,684	8,455
Inventories (note 7)	**229,706**	232,694	224,406
Income taxes recoverable	**–**	–	899
Prepaid expenses	**3,695**	7,941	6,771
Total current assets	**453,629**	336,980	344,429
Property, plant and equipment (note 8)	**67,464**	78,777	74,800
Intangible assets (note 9)	**22,810**	30,614	23,793
Goodwill (note 10)	**–**	26,632	26,632
Deferred tax assets (note 11)	**48,633**	38,004	48,214
Total assets	**592,536**	511,007	517,868
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities (note 21)	**174,201**	180,899	179,063
Unredeemed gift card liability	**42,711**	40,991	37,816
Provisions (note 12)	**232**	–	178
Deferred revenue	**11,234**	11,528	12,882
Income taxes payable	**65**	657	–
Current portion of long-term debt (notes 13 and 19)	**1,060**	1,290	1,863
Total current liabilities	**229,503**	235,365	231,802
Long-term accrued liabilities (note 21)	**5,800**	6,284	8,203
Long-term provisions (note 12)	**460**	–	–
Long-term debt (notes 13 and 19)	**1,141**	1,995	1,174
Total liabilities	**236,904**	243,644	241,179
Equity			
Share capital (note 14)	**203,373**	202,220	198,635
Contributed surplus (note 15)	**7,039**	6,066	5,633
Retained earnings	**145,220**	48,629	65,496
Total equity attributable to shareholders of the Company	**355,632**	256,915	269,764
Non-controlling interest (note 24)	**–**	10,448	6,925
Total equity	**355,632**	267,363	276,689
Total liabilities and equity	**592,536**	511,007	517,868

See accompanying notes

On behalf of the Board:

Heather Reisman
Director

Michael Kirby
Director

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

(thousands of Canadian dollars, except per share data)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Revenues	**933,990**	956,449
Cost of sales (note 7)	**544,924**	543,008
Gross profit	**389,066**	413,441
Operating and administrative expenses (notes 8, 9, 10 and 16)	**418,701**	387,927
Operating earnings (loss)	**(29,635)**	25,514
Interest on long-term debt and financing charges	**153**	212
Interest income on cash and cash equivalents	**(460)**	(515)
Earnings (loss) before income taxes	**(29,328)**	25,817
Income tax expense (recovery) (note 11)		
Current	**71**	1,214
Deferred	**(1,572)**	10,211
	(1,501)	11,425
Earnings (loss) and comprehensive earnings (loss) for the period from continuing operations	**(27,827)**	14,392
Earnings (loss) and comprehensive earnings (loss) for the period from discontinued operations (net of tax) (note 24)	**94,016**	(33,776)
Net earnings (loss) and comprehensive earnings (loss) for the period	**66,189**	(19,384)
Net earnings (loss) and comprehensive earnings (loss) attributable to:		
Shareholders of the Company	**92,664**	(5,742)
Non-controlling interest (note 24)	**(26,475)**	(13,642)
Total net earnings (loss) and comprehensive earnings (loss) for the period	**66,189**	(19,384)
Net earnings (loss) per common share from continuing operations		
Basic	**$(1.10)**	$0.58
Diluted	**$(1.10)**	$0.57
Net earnings (loss) per common share from discontinued operations (note 24)		
Basic	**$4.78**	$(0.81)
Diluted	**$4.73**	$(0.81)
Net earnings (loss) per common share (note 17)		
Basic	**$3.68**	$(0.23)
Diluted	**$3.64**	$(0.23)

See accompanying notes

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Total	Non-controlling Interest	Total Equity
Balance, April 4, 2010	198,635	5,633	65,496	269,764	6,925	276,689
Loss for the 52-week period ended April 2, 2011	–	–	(5,742)	(5,742)	(13,642)	(19,384)
Exercise of options (notes 14 and 15)	3,735	(732)	–	3,003	–	3,003
Directors' deferred stock units converted (note 14)	60	(60)	–	–	–	–
Shares repurchased under NCIB (note 14)	(210)	–	(177)	(387)	–	(387)
Stock-based compensation (note 15)	–	671	–	671	1,375	2,046
Directors' compensation (note 15)	–	554	–	554	–	554
Dividends paid	–	–	(10,948)	(10,948)	–	(10,948)
Issuance of equity securities by subsidiary to non-controlling interest	–	–	–	–	15,790	15,790
Balance, April 2, 2011	202,220	6,066	48,629	256,915	10,448	267,363
Balance, April 2, 2011	**202,220**	**6,066**	**48,629**	**256,915**	**10,448**	**267,363**
Earnings (loss) for the 52-week period ended March 31, 2012	**–**	**–**	**92,664**	**92,664**	**(26,475)**	**66,189**
Exercise of options (notes 14 and 15)	**749**	**(164)**	**–**	**585**	**–**	**585**
Directors' deferred stock units converted (note 14)	**404**	**(404)**	**–**	**–**	**–**	**–**
Stock-based compensation (note 15)	**–**	**1,041**	**–**	**1,041**	**9,224**	**10,265**
Directors' compensation (note 15)	**–**	**500**	**–**	**500**	**–**	**500**
Dividends paid	**–**	**–**	**(11,090)**	**(11,090)**	**–**	**(11,090)**
Acquisition of non-capital tax losses (note 23)	**–**	**–**	**15,017**	**15,017**	**–**	**15,017**
Issuance of equity securities by subsidiary to non-controlling interest	**–**	**–**	**–**	**–**	**21,345**	**21,345**
Sale of subsidiary (note 24)	**–**	**–**	**–**	**–**	**(14,542)**	**(14,542)**
Balance, March 31, 2012	**203,373**	**7,039**	**145,220**	**355,632**	**–**	**355,632**

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss) from continuing operations for the period	**(27,827)**	14,392
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment (note 8)	**18,416**	18,369
Amortization of intangible assets (note 9)	**8,243**	7,663
Impairment of capital assets (notes 8 and 9)	**3,956**	4,882
Impairment of goodwill (note 10)	**25,416**	–
Loss on disposal of capital assets	**124**	168
Stock-based compensation (note 15)	**1,041**	671
Directors' compensation (note 15)	**500**	554
Deferred tax assets (note 11)	**(1,572)**	10,211
Other	**(205)**	1,081
Net change in non-cash working capital balances related to continuing operations (note 18)	**16,925**	(26,088)
Interest on long-term debt and financing charges	**153**	212
Interest income on cash and cash equivalents	**(460)**	(515)
Income taxes received (paid)	**(325)**	736
Operating cash flows of discontinued operations (note 24)	**(56,878)**	(14,263)
Cash flows from (used in) operating activities	**(12,493)**	18,073
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of non-capital tax losses (note 23)	**(10,559)**	–
Purchase of property, plant and equipment (note 8)	**(12,141)**	(24,645)
Addition of intangible assets (note 9)	**(8,553)**	(10,789)
Investing cash flows of discontinued operations (note 24)	**(8,884)**	(7,536)
Cash flows used in investing activities	**(40,137)**	(42,970)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(1,367)**	(2,073)
Interest received	**281**	316
Proceeds from share issuances (note 14)	**585**	3,003
Repurchase of common shares (note 14)	**–**	(387)
Purchase of shares in subsidiary (note 24)	**(3,009)**	(19,271)
Cash disposal resulting from sale of subsidiary (note 24)	**(33,033)**	–
Proceeds from sale of subsidiary (note 24)	**148,941**	–
Dividends paid	**(11,090)**	(10,948)
Financing cash flows of discontinued operations (note 24)	**74,819**	35,113
Cash flows from financing activities	**176,127**	5,753
Effect of foreign currency exchange rate changes on cash and cash equivalents	**443**	(1,093)
Net increase (decrease) in cash and cash equivalents during the period	**123,940**	(20,237)
Cash and cash equivalents, beginning of period	**83,661**	103,898
Cash and cash equivalents, end of period	**207,601**	83,661
Cash and cash equivalents attributable to:		
Continuing operations	**207,601**	59,685
Discontinued operations	**–**	23,976
	207,601	83,661

See accompanying notes

Notes to Consolidated Financial Statements

March 31, 2012

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 subsidiary, Kobo Inc. ("Kobo") and its joint venture interest in Calendar Club of Canada Limited Partnership ("Calendar Club"). Kobo was a subsidiary of the Company until January 10, 2012 and subsequently, the Company closed on the sale of its full interest in Kobo on January 11, 2012. The Company is the ultimate parent of the consolidated organization.

2. NATURE OF OPERATIONS

Indigo is Canada's largest book, gift and specialty toy retailer and was formed as a result of an amalgamation of Chapters Inc. and Indigo Books & Music, Inc. under the laws of the Province of Ontario, pursuant to a Certificate of Amalgamation dated August 16, 2001. The Company operates a chain of retail bookstores across all 10 provinces and one territory in Canada, including 97 superstores (2011 – 97) under the *Chapters*, *Indigo* and *World's Biggest Bookstore* names, as well as 143 small format stores (2011 – 150) under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks*, *The Book Company*, and *Pistachio*. The Company operates *www.chapters.indigo.ca*, an e-commerce retail destination which sells books, gifts, toys, DVDs, and music. The Company also operates seasonal kiosks and year-round stores in shopping malls across Canada through Calendar Club.

In February 2009, Indigo launched Shortcovers (*www.shortcovers.com*), a new digital destination which offered online and mobile services that provided instant access to books. In December 2009, Indigo transferred the net assets of Shortcovers into a new company, Kobo Inc. The Shortcovers website was renamed to *www.kobo.com* and Kobo provides instant access to books, newspapers, magazines and other digital content through its website. Kobo has launched localized instances of its website in several countries and offers its download service to users worldwide. Kobo also develops eReader devices which are sold through wholesale and retail channels.

On November 8, 2011, Indigo entered into an agreement with Rakuten, Inc. ("Rakuten") for Rakuten to acquire all the outstanding shares of Kobo on a fully diluted basis. The sale transaction was unanimously approved by the Board of Directors on November 8, 2011 and closed on January 11, 2012 following the satisfaction of all closing conditions. The Company continued to eliminate all intercompany transactions until the sale was closed.

Subsequent to the sale of Kobo, the Company's operations are focused on the merchandising of products and services in Canada. As such, the Company presents one operating segment in its consolidated financial statements.

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

3. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first consolidated financial statements reported under IFRS. IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), has been applied in the preparation of these consolidated financial statements. The comparative consolidated financial statements also reflect the adoption of IFRS. An explanation of how the transition from previous Canadian Generally Accepted Accounting

Principles ("Canadian GAAP" or "CGAAP") to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 25 to these consolidated financial statements.

These consolidated financial statements were approved by the Company's Board of Directors on May 29, 2012.

Use of judgment

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make judgments, apart from those involving estimation, in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the judgments made by the Company. Information about judgments that have the most significant effect on recognition and measurement of assets, liabilities, revenues, and expenses are discussed below. Information about significant estimates is discussed in the following section.

Impairment

An impairment loss is recognized for the amount by which the carrying amount of an asset or a cash-generating unit ("CGU") exceeds its recoverable amount. The Company uses judgment when identifying CGUs and when assessing for indicators of impairment.

Intangible assets

Initial capitalization of intangible asset costs is based on the Company's judgment that technological and economical feasibility are confirmed and the project will generate future economic benefits by way of estimated future discounted cash flows that are being generated.

Leases

The Company uses judgment in determining whether a lease qualifies as a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Deferred tax assets

The recognition of deferred tax assets is based on the Company's judgment. The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's latest approved forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties are assessed individually by the Company based on the specific facts and circumstances.

Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS requires the Company to make estimates and assumptions in applying accounting policies that affect the recognition and measurement of assets, liabilities, revenues, and expenses. Actual results may differ from the estimates made by the Company, and actual results will seldom equal estimates. Information about estimates that have the most significant effect on the recognition and measurement of assets, liabilities, revenues, and expenses are discussed below.

Revenues

The Company recognizes revenue from unredeemed gift cards ("gift card breakage") if the likelihood of gift card redemption by the customer is considered to be remote. The Company estimates its average gift card breakage rate based on historical redemption rates. The resulting revenue is recognized over the estimated period of redemption based on historical redemption patterns commencing when the gift cards are sold.

The Indigo plum rewards program ("Plum") allows customers to earn points on their purchases. The fair value of Plum points is calculated by multiplying the number of points issued by the estimated cost per point. The estimated cost per point is based on many factors, including the expected future redemption patterns and associated costs. On an ongoing basis, the Company monitors trends in redemption patterns and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity. To the extent that estimates differ from actual experience, Plum costs could be higher or lower. The Company also recognizes revenue from unredeemed Plum points ("points breakage") if the likelihood of redemption by the customer is considered to be remote. The Company determines its average points breakage rate based on historical redemption rates and industry data. Points breakage is netted against the fair value of Plum points.

Inventories

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and records reserves for slow-moving or damaged products and for products that have been permanently marked down based on these assumptions. The Company reviews the reserves regularly and assesses whether they are appropriate based on actual experience. In addition, the Company records a vendor settlement accrual to cover any disputes between the Company and its vendors. The Company estimates this reserve based on historical experience of settlements with its vendors.

Share-based payments

The cost of equity-settled or cash-settled transactions with counterparties is based on the Company's estimate of the fair value of share-based instruments and the number of equity instruments that will eventually vest. The Company's estimated fair value of the share-based instruments is calculated using the following variables: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. Risk-free interest rate is based on Government of Canada bond yields, while all other variables are estimated based on the Company's historical experience with its share-based payments.

Impairment

To determine the recoverable amount of an impaired asset, the Company estimates expected future cash flows at the CGU level and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, the Company makes assumptions about future sales, gross margin rates, expenses, capital expenditures, and working capital investments which are based upon past and expected performance. Determining the applicable discount rate involves estimating appropriate adjustments to market risk and to Company-specific risk factors.

Property, plant and equipment and intangible assets (collectively, "capital assets")

Capital assets are depreciated over their useful lives, taking into account residual values where appropriate. Assessments of useful lives and residual values are performed annually and take into consideration factors such as: technological innovation; maintenance programs; and relevant market information. In assessing residual values, the Company considers the remaining life of the asset, its projected disposal value, and future market conditions.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of measurement

The Company's consolidated financial statements are prepared on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (its subsidiary). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. When the Company does not own all of the equity in a subsidiary, the non-controlling interest is disclosed as a separate line item in the consolidated balance sheets and the earnings accruing to non-controlling interest holders is disclosed as a separate line item in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intercompany balances and transactions and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Investment in joint venture

The Company has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Company recognizes its interest in the joint venture using the proportionate consolidation method. The Company combines its proportionate share of the assets, liabilities, income, and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period and follow the same accounting policies as the Company.

Adjustments are made in the consolidated financial statements to eliminate the Company's share of intercompany balances and transactions and any unrealized income and expenses arising from transactions between the Company and its jointly controlled entity. The joint venture is proportionately consolidated until the date on which the Company ceases to have joint control over the joint venture.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less at the date of acquisition. Cash is considered to be restricted when it is subject to contingent rights of a third-party customer, vendor, or government agency.

Inventories

Inventories are valued at the lower of cost, determined on a moving average cost basis, and market, being net realizable value. Costs include all direct and reasonable expenditures that are incurred in bringing inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business. When the Company permanently reduces the retail price of an item and the markdown incurred brings the retail price below the cost of the item, there is a corresponding reduction in inventory recognized in the period. Vendor rebates are recorded as a reduction in the price of the products, and corresponding inventories are recorded net of vendor rebates.

Prepaid expenses

Prepaid expenses include store supplies, rent, license fees, maintenance contracts, and insurance. Store supplies are expensed as they are used while other costs are amortized over the term of the contract.

Income taxes

Current income tax is the expected tax payable or receivable on the taxable earnings or loss for the period. Current income tax is payable on taxable earnings for the period as calculated under Canadian taxation guidelines, which differs from taxable

earnings under IFRS. Calculation of current income tax is based on tax rates and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

Deferred income tax is calculated at the reporting date using the liability method based on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax assets and liabilities on temporary differences arising from the initial recognition of goodwill, or of an asset or liability in a transaction that is not a business combination, will not be recognized when neither accounting nor taxable profit or loss are affected at the time of the transaction.

Deferred tax assets arising from temporary differences associated with investments in subsidiaries and interests in joint ventures are provided for if it is probable that the differences will reverse in the foreseeable future and taxable profit will be available against which the tax assets may be utilized. Deferred tax assets on temporary differences associated with investments in subsidiaries and interests in joint ventures are not provided for if the timing of the reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective periods of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are offset only when the Company has the right and intention to set off current tax assets and liabilities from the same taxable entity and the same taxation authority.

Property, plant and equipment

All items of property, plant and equipment are initially recognized at cost, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company. Subsequent to initial recognition, property, plant and equipment is shown at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins once it becomes available for use. The depreciable amount of an asset, being the cost of an asset less the residual value, is allocated on a straight-line basis over the estimated useful life of the asset. Residual value is estimated to be zero unless the Company expects to dispose of the asset at a value that exceeds the estimated disposal costs. The residual values, useful lives and depreciation methods applied to assets are reviewed annually based on relevant market information and management considerations.

The following useful lives are applied:

Furniture, fixtures and equipment	5 – 10 years
Computer equipment	3 – 5 years
Equipment under finance lease	3 – 5 years
Leasehold improvements	over the lease term to a maximum of 10 years

Items of property, plant and equipment are assessed for impairment as detailed in the accounting policy note on impairment and are derecognized either upon disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition is included in earnings when the asset is derecognized.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards related to ownership of the leased asset to the Company. At lease inception, the related asset is recognized at the lower of the fair value of the leased asset or the present value of the lease payments. The corresponding liability amount is recognized as long-term debt.

Depreciation methods and useful lives for assets held under finance lease agreements correspond to those applied to comparable assets which are legally owned by the Company. If there is no reasonable certainty that the Company will obtain ownership of the financed asset at the end of the lease term, the asset is depreciated over the shorter of its estimated useful life or the lease term. The corresponding long-term debt is reduced by lease payments less interest paid. Interest payments

are expensed as part of interest on long-term debt and financing charges on the consolidated statements of earnings (loss) and comprehensive earnings (loss) over the period of the lease. As at March 31, 2012 and April 2, 2011, computer equipment assets are the only type of asset leased under finance lease arrangements.

All other leases are treated as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Leased premises

The Company conducts all of its business from leased premises. Leasehold improvements are depreciated over the lesser of their economic life or the initial lease term plus renewal periods where renewal has been determined to be reasonably assured ("lease term"). Leasehold improvements are assessed for impairment as detailed in the accounting policy note on impairment. Leasehold improvement allowances are depreciated over the lease term. Other inducements, such as rent-free periods, are amortized into earnings over the lease term. As at March 31, 2012 and April 2, 2011, all of the Company's leases on premises were accounted for as operating leases. Expenses incurred for leased premises include base rent, taxes and contingent rent based upon a percentage of sales.

Intangible assets

Intangible assets are initially recognized at cost, if acquired separately, or at fair value, if acquired as part of a business combination. After initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses.

Amortization commences when the intangible assets are available for their intended use. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life. Intangible assets with infinite lives are not amortized but are reviewed at each reporting date to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Residual value is estimated to be zero unless the Company expects to dispose of the asset at a value that exceeds the estimated disposal costs. The residual values, useful lives and amortization methods applied to assets are reviewed annually based on relevant market information and management considerations.

The following useful lives are applied:

Computer application software	3 – 5 years
Internal development costs	3 years

Intangible assets are assessed for impairment as detailed in the accounting policy note on impairment. An intangible asset is derecognized either upon disposal or when no future economic benefit is expected from its use. Any gain or loss arising on derecognition is included in earnings when the asset is derecognized.

Computer application software

When computer application software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Computer application software that is integral to the use of related computer hardware is recorded as property, plant and equipment.

Internal development costs

Costs that are directly attributable to internal development are recognized as intangible assets provided they meet the definition of an intangible asset. Development costs not meeting these criteria are expensed as incurred. Capitalized development costs include external direct costs of materials and services and the payroll and payroll-related costs for employees who are directly associated with the projects.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to the net identifiable assets, including intangible assets, acquired at the date of acquisition. Goodwill is carried at cost less any disposals and any accumulated impairment losses. Goodwill is allocated to the lowest level at which it is monitored for internal management purposes and is not larger than an operating segment before aggregation. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the determination of any gain or loss on disposal. Goodwill is not amortized, but is subject to review for impairment as detailed in the accounting policy note on impairment.

Impairment testing

Capital assets

For the purposes of assessing impairment, capital assets are grouped at the lowest levels for which there are largely independent cash inflows and for which a reasonable and consistent allocation basis can be identified. For capital assets which can be reasonably and consistently allocated to individual stores, the store level is used as the CGU for impairment testing. For all other capital assets, the operating segment level is used as the group of CGUs. Capital assets and related CGUs or groups of CGUs are tested for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events or changes in circumstances which may indicate impairment include: a significant change to the Company's operations; a significant decline in performance; or a change in market conditions which adversely affects the Company.

An impairment loss is recognized for the amount by which the carrying amount of a CGU or group of CGUs exceeds its recoverable amount. To determine the recoverable amount, management determines the present value of the expected future cash flows from each CGU or group of CGUs based on the Company's estimated growth rate. The Company's growth rate and future cash flows are based on historical data and management's expectations. Impairment losses are charged pro rata to the capital assets in the CGU or group of CGUs. Capital assets and CGUs or groups of CGUs are subsequently reassessed for indicators that a previously recognized impairment loss may no longer exist. An impairment loss is reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Goodwill

Goodwill is allocated at the operating segment level, which represents the lowest level within the Company at which management monitors goodwill. Goodwill is tested for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events or changes in circumstances which may indicate impairment include: a significant change to the Company's operations; a significant decline in performance; or a change in market conditions which adversely affects the Company.

An impairment loss is recognized for the amount by which the carrying amount of the operating segment exceeds its recoverable amount. To determine the recoverable amount, management determines the present value of the expected future cash flows from each reporting unit based on the Company's estimated growth rate. The Company's growth rate and future cash flows are based on historical data and management's expectations. Previously recognized goodwill impairment losses are not subsequently reversed if conditions change.

Financial assets

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. Financial assets are tested for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Evidence of impairment may include: indications that a debtor or a group of debtors are experiencing significant financial

difficulty; default or delinquency in interest or principal payments; and observable data indicating that there is a measureable decrease in the estimated future cash flows.

A financial asset is deemed to be impaired if there is objective evidence that one or more loss events having a negative effect on future cash flows of the financial asset occurs after initial recognition and the loss can be reliably measured. The impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recorded as an allowance and recognized in net earnings. If the impairment loss decreases as the result of subsequent events, the previously recognized impairment loss is reversed.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, for which it is probable that the Company will be required to settle the obligation and a reliable estimate of the settlement can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainties of cash flow. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money. Examples of provisions include legal claims, onerous leases and decommissioning liabilities.

Deferred financing fees

Financing fees relate to the Company's line of credit and are amortized on a straight-line basis, which approximates the effective yield method, over the term of the respective indebtedness. When funds have been drawn against this facility, the Company's line of credit is presented on the consolidated balance sheet net of financing fees. If the line of credit has not been drawn upon, then financing fees are netted against long-term debt.

Borrowing costs

Borrowing costs primarily comprise interest on the Company's long-term debt and line of credit. Borrowing costs are capitalized to the extent that they are directly attributable to the acquisition, production, or construction of qualifying assets that require a substantial period of time to get ready for their intended use or sale. All other borrowing costs are expensed as incurred and reported in the consolidated statements of earnings (loss) and comprehensive earnings (loss) as part of interest on long-term debt and finance charges.

Equity attributable to shareholders of the Company

Share capital represents the nominal value of shares that have been issued. Retained earnings include all current and prior period retained profits. Dividend distributions payable to equity shareholders are recorded as dividends payable when the dividends have been approved by the Board of Directors prior to the reporting date.

Share-based awards

The Company has established an employee stock option plan for key employees. The fair value of each tranche of options granted is estimated on grant date using the Black-Scholes option pricing model. The grant date fair value, net of estimated forfeitures, is recognized as an expense with a corresponding increase to contributed surplus over the vesting period. Estimates are subsequently revised if there is an indication that the number of stock options expected to vest differs from previous estimates. Any consideration paid by employees on exercise of stock options is credited to share capital, with a corresponding reduction to contributed surplus.

For share-based awards which allow the counterparty to choose whether the awards will be settled in cash or in shares, the Company measures the fair value of these awards using the Black-Scholes option pricing model at grant date. Fair value is remeasured at each reporting date and at settlement date. The fair value of settlement in cash is the same as the fair value of settlement in shares. The fair value is recognized as an expense with a corresponding increase in liabilities over the period that

the counterparties become unconditionally entitled to the awards. If the Company issues equity instruments on settlement instead of paying cash, the liability shall be transferred directly to share capital as consideration for the equity instruments issued.

Revenues

The Company recognizes revenue when the substantial risks and rewards of ownership pass to the customer. Revenue is measured at the fair value of consideration received or receivable by the Company for goods supplied, inclusive of amounts invoiced for shipping, and net of sales discounts, returns and amounts deferred related to the issuance of Plum points. Return allowances are estimated using historical experience. Revenue is recognized when: the amount can be measured reliably; it is probable that economic benefits associated with the transaction will flow to the Company; the costs incurred or to be incurred can be measured reliably; and the criteria for each of the Company's activities (as described below) have been met.

Retail sales

Revenue for retail customers is recognized at the time of purchase.

Online sales

Revenue for online customers is recognized when the product is shipped.

Commission revenue

The Company earns commission revenue through partnerships with other companies and recognizes revenue once services have been rendered and the amount of revenue can be measured reliably.

Gift cards

The Company sells gift cards to its customers and recognizes the revenue as gift cards are redeemed. The Company also recognizes gift card breakage if the likelihood of gift card redemption by the customer is considered to be remote. The Company determines its average gift card breakage rate based on historical redemption rates. Once the breakage rate is determined, the resulting revenue is recognized over the estimated period of redemption based on historical redemption patterns, commencing when the gift cards are sold. Gift card breakage is included in revenues in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

Indigo irewards loyalty program

For an annual fee, the Company offers loyalty cards to customers that entitle the cardholder to receive discounts on purchases. Each card is issued with a 12-month expiry period. The fee revenue related to the issuance of a card is deferred and amortized into earnings over the expiry period, based upon historical sales volumes.

Indigo plum rewards program

Plum is a free program that allows members to earn points on their purchases in the Company's stores and enjoy member pricing at the Company's online website. Members can then redeem points for discounts on future purchases of store merchandise.

When a Plum member purchases merchandise, the Company allocates the payment received between the merchandise and the points. The payment is allocated based on the residual method, where the amount allocated to the merchandise is the total payment less the fair value of the points. The portion of revenue attributed to the merchandise is recognized at the time of purchase. Revenue attributed to the points is recorded as deferred revenue and recognized when points are redeemed.

The fair value of the points is calculated by multiplying the number of points issued by the estimated cost per point. The estimated cost per point is determined based on a number of factors, including the expected future redemption patterns and

associated costs. On an ongoing basis, the Company monitors trends in redemption patterns (redemption at each reward level) and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity. The Company also recognizes revenue from points breakage if the likelihood of points redemption by the customer is considered to be remote. The Company determines its average points breakage rate based on historical redemption rates (points redeemed as a percentage of points issued) and industry data. Points breakage is netted against the fair value of Plum points and is included in revenues in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

Interest income

Interest income is reported on an accrual basis using the effective interest method.

Vendor rebates

The Company records cash consideration received from vendors as a reduction to the price of vendors' products. This is reflected as a reduction in cost of goods sold and related inventories when recognized in the consolidated financial statements. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the Company or a payment for services delivered to the vendor, in which case the cash received is reflected in operating and administrative expenses.

Discontinued operations

A discontinued operation is a component of the Company that represents a separate major line of business which has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. When the Company classifies a component of its business as a discontinued operation, certain comparative figures are reclassified to conform to the current period's presentation. The Company excludes the results of the discontinued operation, along with any gain or loss from disposal, from the operating results of continuing operations. Results of the discontinued operation, along with any gain or loss from disposal, are separately presented as operations and cash flows of the discontinued operation.

Where the discontinued operation has not yet been disposed of and is a consolidated subsidiary of the Company, the assets and liabilities of the discontinued operation are classified on the consolidated balance sheet as assets and liabilities held for sale. The Company will continue to eliminate all intercompany transactions for a consolidated subsidiary until disposal occurs.

Earnings per share

Basic earnings per share is determined by dividing the net earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in accordance with the treasury stock method and are based on the weighted average number of common shares and dilutive common share equivalents outstanding during the period. The weighted average number of shares used in the computation of both basic and fully diluted earnings per share may be the same due to the anti-dilutive effect of securities.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled, or expires. Where a legally enforceable right to offset exists for recognized financial assets and financial liabilities and there is an intention to settle the liability and realize the asset simultaneously, or to settle on a net basis, such related financial assets and financial liabilities are offset.

For the purposes of ongoing measurement, financial assets and liabilities are classified according to their characteristics and management's intent. All financial instruments are initially recognized at fair value. The following methods and assumptions were used to estimate the initial fair value of each type of financial instrument by reference to market data and other valuation techniques, as appropriate:

(i) The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values given their short maturities; and

(ii) The fair value of long-term debt is estimated based on the discounted cash payments of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities. The fair value of long-term debt approximates its carrying value.

Embedded derivatives are separated and measured at fair values if certain criteria are met. Management has reviewed all material contracts and has determined that the Company does not currently have any significant embedded derivatives that require separate accounting and disclosure.

After initial recognition, financial instruments are subsequently measured as follows:

Financial assets

(i) Loans and receivables – These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost, less impairment charges, using the effective interest method. Gains and losses are recognized in earnings through the amortization process or when the assets are derecognized.

(ii) Financial assets at fair value through profit or loss – These assets are held for trading if acquired for the purpose of selling in the near term or are designated to this category upon initial recognition. These assets are measured at fair value, with gains or losses recognized in earnings.

(iii) Held-to-maturity investments – These are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company intends, and is able, to hold until maturity. These assets are measured at amortized cost, less impairment charges, using the effective interest method. Gains and losses are recognized in earnings through the amortization process or when the assets are derecognized.

(iv) Available-for-sale financial assets – These are non-derivative financial assets that are either designated to this category upon initial recognition or do not qualify for inclusion in any of the other categories. These assets are measured at fair value, with unrealized gains and losses recognized in equity until the asset is derecognized or determined to be impaired. If the asset is derecognized or determined to be impaired, the cumulative gain or loss previously reported in equity is included in earnings.

Financial liabilities

(i) Other liabilities – These liabilities are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in earnings through the amortization process or when the liabilities are derecognized.

(ii) Financial liabilities at fair value through profit or loss – These liabilities are held for trading if acquired for the purpose of selling in the near term or are designated to this category upon initial recognition. These liabilities are measured at fair value, with gains or losses recognized in earnings.

The Company's financial assets and financial liabilities are generally classified and measured as follows:

Financial Asset/Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

All other balance sheet accounts are not financial instruments.

All financial instruments measured at fair value after initial recognition are categorized into one of three hierarchy levels for disclosure purposes. Each level reflects the significance of the inputs used in making the fair value measurements.

Level 1: Fair value is determined by reference to quoted prices in active markets.
Level 2: Valuations use inputs based on observable market data, either directly or indirectly, other than the quoted prices.
Level 3: Valuations are based on inputs that are not based on observable market data.

As at March 31, 2012, there are no financial instruments classified into these levels. The Company measures all financial instruments at amortized cost.

Retirement benefits

The Company provides retirement benefits through a defined contribution retirement plan. Under the defined contribution retirement plan, the Company pays fixed contributions to an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The costs of benefits under the defined contribution retirement plan are expensed as contributions are due and reversed if employees leave before the vesting period.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. Sales transacted in foreign currencies are aggregated monthly and translated using the average exchange rate. Transactions in foreign currencies are translated at rates of exchange at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies which are held at the reporting date are translated at the closing consolidated balance sheet rate. Non-monetary items are measured at historical cost and are translated using the exchange rates at the date of the transaction. Non-monetary items measured at fair value are translated using exchange rates at the date when fair value was determined. The resulting exchange gains or losses are included in earnings.

5. NEW ACCOUNTING PRONOUNCEMENTS

Income Taxes ("IAS 12")

The IASB has issued an amendment to IAS 12 that introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. The Company will apply this amendment beginning in the first quarter of fiscal 2013. The Company currently has no investment properties and, as such, does not expect the implementation of the amendment to have an impact on its consolidated financial statements.

Presentation of Financial Statements ("IAS 1")

The IASB has issued amendments to IAS 1 which will require companies to group together items within other comprehensive earnings which may be reclassified to net earnings. The amendments are effective for annual periods beginning on or after July 1, 2012 and must be applied retrospectively. The Company will apply these amendments beginning in the first quarter of fiscal 2014. The Company does not expect implementation of these amendments to have a significant impact on its consolidated statements of earnings (loss) and comprehensive earnings (loss).

Financial Instruments: Disclosures ("IFRS 7")

The IASB has issued amendments to IFRS 7 that increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendments beginning in the first quarter of fiscal 2013. The IASB has also issued amendments regarding the offsetting

of financial instruments. These amendments are effective for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The Company will apply these amendments beginning in the first quarter of fiscal 2014. The Company does not expect implementation of these amendments to have a significant impact on its disclosures.

Financial Instruments: Presentation ("IAS 32")

The IASB has issued amendments to IAS 32 that clarify its requirements for offsetting financial instruments. These amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. The Company will apply these amendments beginning in the first quarter of fiscal 2015. The Company does not expect implementation of these amendments to have a significant impact on its presentation.

Financial Instruments ("IFRS 9")

The IASB has issued a new standard, IFRS 9, which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments. Issuance of IFRS 9 is part of the first phase of the IAS 39 replacement project. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Company has yet to assess the impact of the new standard on its consolidated financial statements.

Other Standards

On May 12, 2011, the IASB issued four new standards along with amendments to two standards, all of which are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted, but the new standards and amendments must all be adopted concurrently, with the exception of IFRS 12, "Disclosure of Interests in Other Entities," which may be early adopted on its own. The Company has yet to fully assess the impact of the new standards and amendments on its consolidated financial statements. The Company expects to adopt these new standards and amendments in the first quarter of fiscal 2014. The following is a list and description of these new standards and amendments:

- Consolidated Financial Statements ("IFRS 10") establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. IFRS 10 establishes a single control model that applies to all entities. Kobo was the only entity which would have been consolidated by the Company under this standard and the sale of Kobo closed on January 11, 2012. As such, this standard is not expected to apply unless the Company acquires another entity before adoption of this standard;
- Joint Arrangements ("IFRS 11") replaces IAS 31, "Interests in Joint Ventures" ("IAS 31") and SIC-13, "Jointly-controlled Entities – Non-monetary Contributions by Venturers," and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. Currently, the Company accounts for its interest in Calendar Club under IAS 31 using proportionate consolidation. However, based on a preliminary analysis completed by the Company, its interest in Calendar Club will meet the definition of a joint venture under IFRS 11 and will need to be accounted for using the equity method beginning in fiscal 2014;
- Disclosure of Interests in Other Entities ("IFRS 12") includes all of the disclosures that were previously in IAS 27, "Separate Financial Statements," IAS 31 and IAS 28, "Investments in Associates." These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Under IFRS 12, an entity is required to disclose the judgments made to determine whether it controls another entity. This new standard is expected to increase disclosures related to Calendar Club;

- Fair Value Measurement ("IFRS 13") provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a fair value hierarchy. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not, fair value. The Company currently has no financial or non-financial items which are measured at fair value. As such, this standard is not expected to have a significant impact on the Company's consolidated financial statements;
- Separate Financial Statements ("IAS 27") has been amended to remove all requirements relating to consolidated financial statements. Prior to this amendment, the Company applied IAS 27 to the preparation of its consolidated financial statements. However, as Indigo does not prepare separate financial statements, the amended IAS 27 will no longer be applicable to the Company; and
- Investments in Associates and Joint Ventures ("IAS 28") has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11. The amendments to IAS 28 relate to accounting for associates and joint ventures held for sale, and to changes in interests held in associates and joint ventures. Currently, neither of these scenarios applies to the Company and, as such, these amendments are not expected to have an impact on the Company's consolidated financial statements.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	March 31, 2012	April 2, 2011	April 4, 2010
Cash	**87,082**	83,021	103,489
Cash equivalents	**120,032**	–	–
Restricted cash	**487**	640	409
Cash and cash equivalents	**207,601**	83,661	103,898

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

7. INVENTORIES

Inventories consist of finished goods. The cost of inventories recognized as an expense was $600.4 million in fiscal 2012 (2011 – $585.7 million). The amount of inventory write-downs as a result of net realizable value lower than cost was $10.5 million in fiscal 2012 (2011 – $7.3 million), and there were no reversals of inventory write-downs that were recognized in fiscal 2012 or in prior periods. The amount of inventory with net realizable value equal to cost was $1.7 million as at March 31, 2012 (2011 – $2.3 million; 2010 – $1.2 million).

8. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures and equipment	Computer equipment	Leasehold improvements	Equipment under finance lease	Total
Gross carrying amount					
Balance, April 4, 2010	57,061	17,825	47,022	14,023	135,931
Additions	10,441	2,448	11,791	2,321	27,001
Transfers/reclassifications	(76)	(324)	365	–	(35)
Disposals	(69)	(2)	(120)	–	(191)
Assets with zero net book value	(8,428)	(2,077)	(3,271)	(9,789)	(23,565)
Asset activity related to Kobo	78	465	218	–	761
Balance, April 2, 2011	59,007	18,335	56,005	6,555	139,902
Additions	**5,353**	**2,104**	**4,787**	**253**	**12,497**
Transfers / reclassifications	**75**	**(300)**	**229**	**–**	**4**
Disposals	**(193)**	**(12)**	**(86)**	**(662)**	**(953)**
Assets with zero net book value	**(4,355)**	**(3,059)**	**(1,944)**	**–**	**(9,358)**
Asset activity related to discontinued operations	**61**	**416**	**36**	**1,429**	**1,942**
Disposal of discontinued operations	**(214)**	**(1,728)**	**(254)**	**(1,429)**	**(3,625)**
Balance, March 31, 2012	**59,734**	**15,756**	**58,773**	**6,146**	**140,409**
Accumulated depreciation and impairment					
Balance, April 4, 2010	27,185	6,913	16,647	10,386	61,131
Depreciation	5,670	3,374	6,883	2,442	18,369
Disposals	(14)	–	(9)	–	(23)
Impairment loss	1,941	181	2,755	–	4,877
Assets with zero net book value	(8,428)	(2,077)	(3,271)	(9,789)	(23,565)
Asset activity related to Kobo	9	325	2	–	336
Balance, April 2, 2011	26,363	8,716	23,007	3,039	61,125
Depreciation	**5,446**	**3,383**	**8,032**	**1,555**	**18,416**
Transfers / reclassifications	**–**	**191**	**(84)**	**–**	**107**
Disposals	**(151)**	**(11)**	**(63)**	**(662)**	**(887)**
Impairment loss	**1,937**	**107**	**2,756**	**–**	**4,800**
Reversal of impairment loss	**(353)**	**(29)**	**(462)**	**–**	**(844)**
Assets with zero net book value	**(4,355)**	**(3,059)**	**(1,944)**	**–**	**(9,358)**
Asset activity related to discontinued operations	**15**	**418**	**26**	**50**	**509**
Disposal of discontinued operations	**(24)**	**(821)**	**(28)**	**(50)**	**(923)**
Balance, March 31, 2012	**28,878**	**8,895**	**31,240**	**3,932**	**72,945**
Net carrying amount					
April 4, 2010	29,876	10,912	30,375	3,637	74,800
April 2, 2011	32,644	9,619	32,998	3,516	78,777
March 31, 2012	**30,856**	**6,861**	**27,533**	**2,214**	**67,464**

Capital assets are assessed for impairment at the CGU level, except for those capital assets which are either considered to be corporate assets, or capital assets which belong to Kobo or Calendar Club. As corporate assets cannot be allocated on a reasonable and consistent basis to individual CGUs, they have been allocated to the Indigo operating segment for impairment testing. Separate impairment tests are performed for Kobo and Calendar Club.

A CGU has been defined as an individual retail store, as each store generates cash flows that are largely independent from the cash flows of other stores. CGUs and groups of CGUs are tested for impairment if impairment indicators exist at the reporting date. Recoverable amounts for CGUs being tested are based on value in use, which is calculated from discounted cash flow projections over the remaining lease terms, plus any renewal options where renewal is likely.

The key assumptions from the value in use calculations are those regarding growth rates and discount rates. The cash flow projections are based on both past and forecasted performance and are extrapolated using long-term growth rates which are calculated separately for each CGU being tested. Average long-term growth rates for impairment testing ranged from 0.0% to 3.0% (2011 – 0.0% to 3.0%). Management's estimate of the discount rate reflects the current market assessment of the time value of money and the risks specific to the Company. The pre-tax discount rate used to calculate value in use was 22.0% (2011 – 21.0%).

Impairment indicators were identified during fiscal 2012 for Indigo's retail stores and corporate assets. Accordingly, the Company performed impairment testing, which resulted in the recognition and reversal of impairment losses for Indigo's retail stores only. Impairment losses recognized were $4.8 million in fiscal 2012 (2011 – $4.9 million) and are spread across a number of CGUs. The impairment losses relate to CGUs whose carrying amounts exceed their recoverable amounts. In all cases, impairment losses arose due to stores performing at lower-than-expected profitability. Impairment reversals recognized were $0.8 million in fiscal 2012 (2011 – nil). Impairment reversals arose due to improved store performance and the likelihood of lease term renewals. All of the impairment losses and reversals related to Indigo's continuing operations.

9. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Development costs	Domain name	Total
Gross carrying amount				
Balance, April 4, 2010	25,187	11,706	–	36,893
Additions	6,799	3,945	–	10,744
Transfers / reclassifications	44	1	–	45
Assets with zero net book value	(4,385)	(2,601)	–	(6,986)
Asset activity related to Kobo	4,448	1,965	303	6,716
Balance, April 2, 2011	32,093	15,016	303	47,412
Additions	**5,010**	**3,440**	**–**	**8,450**
Transfers / reclassifications	**(4)**	**–**	**–**	**(4)**
Disposals	**–**	**(66)**	**–**	**(66)**
Assets with zero net book value	**(4,733)**	**(3,585)**	**–**	**(8,318)**
Asset activity related to discontinued operations	**2,088**	**6,263**	**22**	**8,373**
Disposal of discontinued operations	**(10,525)**	**(8,990)**	**(325)**	**(19,840)**
Balance, March 31, 2012	**23,929**	**12,078**	**–**	**36,007**
Accumulated amortization and impairment				
Balance, April 4, 2010	8,209	4,891	–	13,100
Amortization	4,557	3,106	–	7,663
Impairment loss	5	–	–	5
Assets with zero net book value	(4,385)	(2,601)	–	(6,986)
Asset activity related to Kobo	2,347	669	–	3,016
Balance, April 2, 2011	10,733	6,065	–	16,798
Amortization	**5,076**	**3,167**	**–**	**8,243**
Transfers / reclassifications	**–**	**(107)**	**–**	**(107)**
Disposals	**(1)**	**(7)**	**–**	**(8)**
Impairment loss	**1**	**–**	**–**	**1**
Assets with zero net book value	**(4,733)**	**(3,585)**	**–**	**(8,318)**
Asset activity related to discontinued operations	**216**	**5,516**	**–**	**5,732**
Disposal of discontinued operations	**(2,884)**	**(6,260)**	**–**	**(9,144)**
Balance, March 31, 2012	**8,408**	**4,789**	**–**	**13,197**
Net carrying amount				
April 4, 2010	16,978	6,815	–	23,793
April 2, 2011	21,360	8,951	303	30,614
March 31, 2012	**15,521**	**7,289**	**–**	**22,810**

The domain name was part of Kobo's total assets. Useful life was deemed to be indefinite because there were no legal, regulatory, contractual, competitive, economic or other factors which limited the useful life of the domain name to Kobo. However, as a result of the sale of Kobo, Kobo assets were no longer consolidated as at March 31, 2012.

Impairment testing for intangible assets is performed using the same methodology, CGUs and groups of CGUs as those used for property, plant and equipment. The key assumptions from the value in use calculations for intangible asset impairment testing are also identical to the key assumptions used for property, plant and equipment testing. Impairment indicators were identified during fiscal 2012 for retail stores and corporate assets, resulting in the recognition of impairment losses related to Indigo's continuing operations. Impairment losses were immaterial and arose due to stores performing at lower-than-expected profitability.

10. GOODWILL

The Company assesses at each reporting date whether there is any indication that goodwill may be impaired. As at October 1, 2011, impairment indicators were identified. At that time, the Company had two operating segments: Indigo and Kobo. Indigo segment performance was significantly lower than expected and the Company's market capitalization had declined significantly from fiscal 2011. These conditions, among other factors, indicated that goodwill may be impaired. As a result, the Company performed a goodwill impairment test which resulted in a full write-down of goodwill allocated to the Indigo segment. Unlike other asset impairments, goodwill impairment charges cannot be reversed once they are recorded.

The goodwill impairment test consisted of comparing the carrying value of assets within each CGU or group of CGUs to the recoverable amount of the CGU or group of CGUs. The group of CGUs used by the Company for impairment testing was at the operating segment level. The recoverable amount of the Indigo segment was measured by discounting the future cash expected to be generated. Cash flows were projected over one year plus a terminal value. The discounted cash flow model was based on actual operating results, detailed sales and cost forecasts, and long-term growth rates which are consistent with inflation and general retail industry averages. The carrying value of Indigo segment assets exceeded its recoverable amount, which resulted in a goodwill impairment charge of $25.4 million.

The key assumptions from the Indigo discounted cash flow model are those regarding growth rates and discount rates. Average growth rate used for the fiscal 2012 impairment test was 2.0% and the pre-tax discount rate was 22.0% (2011 – average growth rate of 2.0%; pre-tax discount rate of 21.0%).

The Company also performed an impairment test on the Kobo segment as at October 1, 2011. The recoverable amount of the Kobo segment was based on the market capitalization of Kobo. There was no impairment identified for the goodwill allocated to the Kobo segment. However, the $1.2 million of goodwill allocated to the Kobo segment was subsequently disposed of in fiscal 2012 as part of the Kobo sale.

As such, the Company has no remaining goodwill balance at the end of fiscal 2012. For purposes of goodwill impairment testing, the carrying value of goodwill was allocated as follows:

(thousands of Canadian dollars)	**March 31, 2012**	April 2, 2011	April 4, 2010
Indigo operations	–	25,416	25,416
Kobo operations	–	1,216	1,216
Total goodwill	–	26,632	26,632

11. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets are as follows:

(thousands of Canadian dollars)	**March 31, 2012**	April 2, 2011	April 4, 2010
Deferred tax assets			
Reserves and allowances	**3,343**	5,360	6,615
Tax loss carryforwards	**25,620**	4,574	20,693
Corporate minimum tax	**1,354**	1,292	–
Book amortization in excess of cumulative eligible capital deduction	**285**	301	321
Book amortization in excess of capital cost allowance	**18,031**	26,477	20,585
Total deferred tax assets	**48,633**	38,004	48,214

The Company has recorded deferred tax assets of $48.6 million pertaining to tax loss carryforwards and other deductible temporary differences based on management's best estimate of future taxable income the Company expects to achieve from reviewing its latest approved forecast. The forecast of taxable income indicates the probable use of the deferred tax assets and therefore, it was recognized in full.

Significant components of income tax expense are as follows:

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Current income tax expense		
Current period	–	1,214
Adjustment for prior periods	71	–
	71	1,214
Deferred income tax expense		
Origination and reversal of temporary differences	(675)	(666)
Deferred income tax expense relating to utilization of loss carryforwards	–	8,579
Change in tax rates due to change in expected pattern of reversal	(905)	2,296
Other, net	8	2
	(1,572)	10,211
Total income tax expense	(1,501)	11,425

The reconciliation of income taxes computed at statutory income tax rates to the effective income tax rates is as follows:

(thousands of Canadian dollars)	52-week period ended March 31, 2012		52-week period ended April 2, 2011	
Earnings (loss) before income tax expense	(29,329)		25,817	
Tax at combined federal and provincial tax rates	(8,069)	27.5%	7,675	29.7%
Tax effect of expenses not deductible for income tax purposes	781	(2.7%)	575	2.2%
Goodwill impairment not deductible for income tax purposes	6,993	(23.8%)	–	0.0%
Change in tax rates due to change in expected pattern of reversal	(1,206)	4.1%	3,175	12.3%
	(1,501)	5.1%	11,425	44.3%

The combined federal and provincial income tax rate used for fiscal 2012 is 27.5% (2011 – 29.7%). The rate has declined due to declining federal and provincial income tax rates.

As at March 31, 2012, the Company has combined non-capital loss carryforwards of approximately $100.2 million for income tax purposes that expire as follows if not utilized:

(thousands of Canadian dollars)	
2031	100,159

12. PROVISIONS

Provisions consist primarily of amounts recorded in respect of decommissioning liabilities, onerous lease arrangements, and legal claims. Activity related to the Company's provisions is as follows:

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Balance, beginning of period	–	178
Charged	692	–
Utilized/released	–	(178)
Balance, end of period	**692**	–

13. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at March 31, 2012, the Company had the following commitments:

(i) Operating lease obligations

The Company had operating lease commitments in respect of its stores, support office premises and certain equipment. The leases expire at various dates between 2012 and 2021 and may be subject to renewal options. Annual store rent consists of a base amount plus, in some cases, additional payments based on store sales.

(ii) Finance lease obligations

The Company entered into finance lease agreements for certain equipment. The obligations under these finance leases is $2.2 million (2011 – $3.3 million), of which $1.1 million (2011 – $1.3 million) is included in the current portion of long-term debt. The remainder of the finance lease obligations have been included in the non-current portion of long-term debt.

The Company's minimum contractual obligations due over the next five fiscal years and thereafter are summarized below:

(millions of Canadian dollars)	Operating leases	Finance leases	Total
2013	58.5	1.1	59.6
2014	46.4	0.7	47.1
2015	31.0	0.4	31.4
2016	22.0	–	22.0
2017	15.0	–	15.0
Thereafter	22.8	–	22.8
Total obligations	195.7	2.2	197.9

(b) Legal claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at March 31, 2012 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position or financial performance, except for those amounts which have been recorded as provisions on the Company's consolidated balance sheets.

14. SHARE CAPITAL

Share capital consists of the following:

Authorized

Unlimited Class A preference shares with no par value, voting, convertible into common shares on a one-for-one basis at the option of the shareholder

Unlimited common shares, voting

	52-week period ended March 31, 2012		52-week period ended April 2, 2011	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	25,140,540	202,220	24,742,915	198,635
Issued during the period				
Directors' deferred share units converted	38,774	404	4,283	60
Options exercised	59,100	749	419,442	3,735
Repurchase of common shares	–	–	(26,100)	(210)
Balance, end of period	25,238,414	203,373	25,140,540	202,220

During fiscal 2012, the Company issued 38,774 common shares (2011 – 4,283 common shares) in exchange for Directors' deferred share units.

On October 27, 2009, the Company announced its intent to make a normal course issuer bid ("NCIB"), which was approved by the Toronto Stock Exchange. Under the NCIB, Indigo was allowed to purchase up to 1,227,229 of its common shares, representing approximately 5% of its total outstanding common shares. During fiscal 2011, the Company repurchased 26,100 common shares at an average price of $14.79 per share for a total cash consideration of $0.4 million under the NCIB. The repurchased shares were cancelled and returned to treasury. The cash consideration exceeded the carrying value of the shares repurchased by $0.2 million and the amount was charged to retained earnings. The NCIB expired on November 1, 2010.

During fiscal 2012, the Company distributed dividends per share of $0.44 (2011 – $0.44).

15. SHARE-BASED COMPENSATION

The Company has established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan is 2,273,841. Most options granted since May 21, 2002 have one fifth of the options granted exercisable one year after the date of issue with the remainder exercisable in equal instalments on the anniversary date over the next four years. A small number of options have special vesting schedules that were approved by the Board. Stock options have up to a ten-year term and each option is exercisable into one common share of the Company at the price specified in the terms of the option agreement.

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 fiscal 2012, the pre-forfeiture fair value of options granted was $0.7 million (2011 – $1.8 million). The weighted average fair value of options issued in fiscal 2012 was $1.98 per option (2011 – $3.66 per option).

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:

	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Black-Scholes assumptions		
Risk-free interest rate	1.8%	2.3%
Expected volatility	33.3%	33.4%
Expected time until exercise	3.7 years	5.3 years
Expected dividend yield	4.3%	2.9%
Other assumptions		
Forfeiture rate	23.5%	23.7%

A summary of the status of the Plan and changes during both periods is presented below:

	52-week period ended March 31, 2012		52-week period ended April 2, 2011	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	1,799,100	14.23	1,827,832	12.42
Granted	350,000	10.99	505,000	15.02
Forfeited	(717,600)	14.14	(111,000)	14.23
Expired	–	–	(3,290)	33.74
Exercised	(59,100)	9.89	(419,442)	7.16
Outstanding options, end of period	1,372,400	13.64	1,799,100	14.23
Options exercisable, end of period	574,900	13.88	623,100	13.46

Options outstanding and exercisable

	March 31, 2012				
	Outstanding			Exercisable	
Range of exercise prices C$	Number #	Weighted average exercise price C$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C$
4.45 – 12.96	299,400	8.76	7.3	91,400	6.79
12.97 – 14.45	345,500	13.81	7.1	146,000	13.74
14.46 – 15.16	150,000	15.00	8.6	30,000	15.00
15.17 – 15.51	257,500	15.21	8.6	51,500	15.21
15.52 – 16.75	320,000	16.10	5.5	256,000	16.10
4.45 – 16.75	1,372,400	13.64	7.2	574,900	13.88

As at April 2, 2011, there were 1,799,100 stock options outstanding of which 623,100 were exercisable.

Directors' compensation

The Company has established a Directors' Deferred Share Unit Plan ("DSU Plan"). Under the DSU Plan, Directors receive their annual retainer fees and other Board-related compensation in the form of deferred share units ("DSUs"). The number of shares reserved for issuance under this plan is 250,000. The Company issued 56,273 DSUs with a value of $0.5 million during fiscal 2012 (2011 – 39,159 DSUs with a value of $0.6 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The fair value of the outstanding DSUs as at March 31, 2012 was $2.5 million (April 2, 2011 – $2.4 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 grant date.

The Company entered into agreements to allow one Indigo Director (who served on Kobo's board) and one Kobo Director to purchase shares of Kobo. These agreements allowed for the purchase of up to 470,000 Kobo shares directly from Indigo and exercise prices ranged from $1.00 – $3.86 per share. As a result of the sale of Kobo to Rakuten, the agreements were exercised in full and the holders received a cash payout of $1.7 million.

16. EMPLOYEE BENEFITS EXPENSE

Included in operating and administrative expenses are the following employee costs:

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Wages, salaries and bonuses	154,279	148,266
Short-term benefits expense	17,793	17,898
Termination benefits expense	2,507	2,317
Retirement benefits expense	1,223	1,282
Stock-based compensation	1,041	671
Total employee benefits expense	176,843	170,434

17. EARNINGS PER SHARE

Earnings per share is calculated based on the weighted average number of common 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 and assumed conversion of the Directors' DSUs do not result in an adjustment to net earnings. The reconciliation of the denominator in calculating diluted earnings per share amounts for the periods presented is as follows:

	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Weighted average number of common shares outstanding, basic	25,201	24,874
Effect of dilutive securities		
Stock options	33	234
Deferred stock units	240	222
Weighted average number of common shares outstanding, diluted	25,474	25,330

As at March 31, 2012, 1,293,000 (2011 – 1,458,000) options could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net earnings per common share in the current period as they were anti-dilutive.

18. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Net change in non-cash working capital balances related to continuing operations:		
Accounts receivable	(4,649)	123
Inventories	2,748	(9,240)
Prepaid expenses	2,118	452
Income taxes payable (recoverable)	(245)	797
Accounts payable and accrued liabilities	14,589	(19,617)
Unredeemed gift card liability	1,720	3,175
Provisions	692	(178)
Deferred revenue	(48)	(1,600)
	16,925	(26,088)
Assets acquired under finance lease	253	2,321

19. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining adequate financial flexibility to invest in new business opportunities that will provide attractive returns to shareholders. The primary activities engaged by the Company to generate attractive returns include construction and related leasehold improvements of stores, the development of new business concepts, and investment in information technology and distribution capacity to support the online and retail networks. The Company's main sources of capital are its current cash position, cash flows generated from operations, a revolving line of credit, and long-term debt. The Company is able to draw $25.0 million from its revolving line of credit. As at March 31, 2012, the Company has no amounts drawn upon its revolving line of credit. Cash flow is used to fund working capital needs, capital expenditures, debt service requirements, and dividend distribution to shareholders. There were no changes to these objectives during fiscal 2012.

In January 2012, the Company received US$146.1 million from the proceeds of the sale of Kobo to Rakuten. To partially manage the foreign exchange risk related to this cash flow, the Company entered into a foreign currency forward contract in December 2011 with a settlement date in January 2012. The Company does not expect to enter into any other forward contracts in the foreseeable future.

The Company monitors its capital structure principally through measuring its total debt to equity ratio and ensures its ability to service its debt obligation by tracking its interest and other fixed charge coverage ratios. Total debt is defined as the total of long-term debt (including the current portion).

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

(thousands of Canadian dollars)	March 31, 2012	April 2, 2011	April 4, 2010
Current portion of long-term debt	1,060	1,290	1,863
Long-term debt	1,141	1,995	1,174
Total debt	2,201	3,285	3,037
Total equity	355,632	267,363	276,689
Total debt : Total equity	0.01:1	0.01:1	0.01:1

The Company also held $5.3 million of notes payable during fiscal 2012; these notes were used in the acquisition of related companies with non-capital tax losses. The notes were paid in full during fiscal 2012 and the Company has no notes payable outstanding as at March 31, 2012.

20. FINANCIAL INSTRUMENTS

In December 2011, the Company entered into a foreign currency forward contract with a Canadian bank to partially manage the foreign exchange risk related to U.S. dollar proceeds from the sale of Kobo. This was a short-term contract with a settlement date in January 2012. This contract was classified as a financial asset and categorized as a Level 2 financial instrument. The fair value of the foreign currency forward contract was calculated by the bank using a valuation model and mid-market rates and has been recorded as part of net earnings (loss) and comprehensive earnings (loss) from continuing operations.

The Company has no other financial instruments measured at fair value.

21. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including risks related to foreign exchange, interest rate, credit and liquidity.

Foreign exchange risk

The Company's foreign exchange risk from continuing operations is largely limited to currency fluctuations between the Canadian and U.S. dollar. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to our customers is set in Canadian dollars. The Company entered into one foreign currency derivative contract during fiscal 2012 to partially manage the foreign exchange risk related to U.S. dollar proceeds from the sale of Kobo. The Company does not expect to enter into any other forward contracts to manage foreign exchange risk from continuing operations.

The strategic partnerships entered into by Kobo resulted in sales to American, European, Asian and Australian customers. The impact of these sales to the Company's foreign exchange risk during fiscal 2012, prior to the sale of Kobo to Rakuten, is not considered to be material.

As the Company expands its product selection to include a greater number of non-book items, foreign exchange risk has increased due to more purchases being denominated in U.S. dollars. A 10% appreciation or depreciation in the U.S. and Canadian dollar exchange rates during fiscal 2012 would have had an impact of $4.8 million (2011 – $4.5 million) on net earnings (loss) and comprehensive earnings (loss) from continuing operations.

The effect of foreign currency translation on net earnings (loss) and comprehensive earnings (loss) from continuing operations was a gain of $0.1 million (2011 – loss of $0.4 million).

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows associated with the Company's financial assets or liabilities will fluctuate due to changes in market interest rates. The Company's interest rate risk is limited to the fluctuation of floating rates on its revolving line of credit. Since the Company does not intend to draw on its revolving line of credit in the coming year, it does not consider its exposure to interest rate risk to be material. The Company does not use any interest rate swaps to fix the floating interest rate on its line of credit.

Credit risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. The Company's maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. Accounts receivable primarily consists of receivables from retail customers who pay by credit card, recoveries of credits from suppliers for returned or damaged products, and receivables from other companies for sales of products, gift cards and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations relating to its financial liabilities. The Company manages liquidity risk by preparing and monitoring cash flow budgets and forecasts to ensure that the Company has sufficient funds to meet its financial obligations and fund new business opportunities or other unanticipated requirements as they arise.

The contractual maturities of the Company's current and long-term liabilities as at March 31, 2012 are as follows:

(thousands of Canadian dollars)	Payments due in the next 90 days	Payments due between 90 days and less than a year	Payments due after 1 year	Total
Accounts payable and accrued liabilities	144,214	29,987	–	174,201
Unredeemed gift card liability	23,919	14,094	4,698	42,711
Provisions	–	232	–	232
Current portion of long-term debt	–	1,060	–	1,060
Long-term accrued liabilities	–	–	5,800	5,800
Long-term provisions	–	–	460	460
Long-term debt	–	–	1,141	1,141
Total	168,133	45,373	12,099	225,605

22. JOINT VENTURE

The Company participates in a joint venture through a 50% equity ownership in Calendar Club to sell calendars, games and gifts through seasonal kiosks and year-round stores.

The following amounts represent the total assets, liabilities, revenues and expenses and cash flows of Calendar Club and the Company's proportionate share therein:

	Total			Proportionate Share		
(thousands of Canadian dollars)	**March 31, 2012**	April 2, 2011	April 4, 2010	**March 31, 2012**	April 2, 2011	April 4, 2010
Current assets	**2,798**	2,830	3,434	**1,399**	1,415	1,717
Long-term assets	**1,071**	1,461	1,469	**536**	731	735
Current liabilities	**1,948**	1,828	2,195	**974**	914	1,098

(thousands of Canadian dollars)	Total 52-week period ended March 31, 2012	Total 52-week period ended April 2, 2011	Proportionate share 52-week period ended March 31, 2012	Proportionate share 52-week period ended April 2, 2011
Revenue	30,748	32,073	15,374	16,037
Expenses	28,415	29,514	14,208	14,757
Net earnings	2,333	2,559	1,166	1,280
Cash flows provided by (used in)				
Operating activities	3,533	2,148	1,767	1,074
Investing activities	(90)	(568)	(45)	(284)
Financing activities	(2,875)	(2,804)	(1,438)	(1,402)
Net cash flow	568	(1,224)	284	(612)

23. RELATED PARTY TRANSACTIONS

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

Transactions with key management personnel

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

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Wages, salaries, bonus and consulting	5,591	3,696
Short-term benefits expense	255	334
Termination benefits expense	–	42
Retirement benefits expense	54	78
Stock-based compensation	601	470
Directors' compensation	1,307	554
Total remuneration	7,808	5,174

Transactions with shareholders

During fiscal 2012, Indigo purchased two companies, the sole assets of which are certain tax losses, from a public company controlled by Mr. Gerald W. Schwartz, who is also the controlling shareholder of Indigo. Indigo acquired these companies with a total of $100.3 million of non-capital tax losses in exchange for total net cash consideration of $5.3 million and two notes payable totalling $5.3 million. The notes payable were non-interest bearing and were both due and repaid on March 31, 2012. The acquisitions included transaction costs shared between the two companies. As a result, the Company has recorded a total deferred tax asset of $25.4 million and the difference of $15.0 million between the total net cash consideration and the total deferred tax asset was recorded directly to retained earnings.

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

Transactions with joint venture

The Company's Calendar Club joint venture is a seasonal operation which is dependent on the December holiday sales season to generate revenues. During the year, the Company loans cash to Calendar Club for working capital requirements and Calendar Club repays the loans once profits are generated in the third quarter. The net amount of these transactions for fiscal 2012 is nil (2011 – nil), as Calendar Club has repaid all loans as at March 31, 2012.

Transactions with subsidiaries

During fiscal 2012, Kobo was a consolidated subsidiary of the Company from April 3, 2011 to January 10, 2012. On April 19, 2011, Kobo issued 6,743,486 shares to a syndicate of investors comprised of both existing shareholders and new investors. Indigo purchased 779,361 common shares for $3.0 million while the rest of the syndicate members purchased a total of 5,964,125 common shares for $23.0 million. As a result of these transactions, Indigo's ownership of Kobo decreased from 58.3% to 51.4%. Subsequently, on November 8, 2011, Indigo entered into an agreement with Rakuten, Inc. for Rakuten to acquire all the outstanding shares of Kobo on a fully diluted basis. The transaction closed on January 11, 2012 and on that date, Kobo was no longer consolidated with the Company.

From April 3, 2011 to January 10, 2012, the Company earned revenue from Kobo through a revenue-sharing agreement, provided back office management services to Kobo, and purchased inventory from Kobo. For Indigo gift cards which are redeemed on Kobo's website, the Company pays Kobo for the value of the gift card, less a commission fee. All related party transactions were recorded in the consolidated statements of earnings (loss) and comprehensive earnings (loss). The net amount of these transactions for fiscal 2012 was $30.3 million paid by Indigo (2011 – $28.6 million paid by Indigo).

24. DISCONTINUED OPERATIONS

On November 8, 2011, Indigo entered into an agreement with Rakuten to acquire all the outstanding shares of Kobo on a fully diluted basis for an aggregate purchase price of US$315.0 million. The transaction was unanimously approved by the Board of Directors on November 8, 2011 and closed on January 11, 2012 following the satisfaction of all closing conditions. As a result of the sale, Kobo's operating results have been classified as discontinued operations and the Company has no remaining non-controlling interest on the consolidated balance sheet. Indigo received net cash proceeds of US$146.1 million for the Kobo sale and recognized an accounting gain of $164.5 million, offset by a $16.3 million income tax expense, as part of earnings from discontinued operations. The Company continued to eliminate all intercompany transactions until the sale was closed.

Below is a summary of Kobo's operating results, including the gain on sale of discontinued operations, which are included in the consolidated statements of earnings (loss) and comprehensive earnings (loss) during the following periods:

(thousands of Canadian dollars)	52-week period ended March 31, 2012	52-week period ended April 2, 2011
Revenues	91,681	60,876
Expenses	145,818	94,652
Loss from discontinued operations	(54,137)	(33,776)
Gain on sale of discontinued operations	164,491	–
Income tax (expense) on sale of discontinued operations	(16,338)	–
Net earnings (loss) from discontinued operations (net of tax)	94,016	(33,776)
Net earnings (loss) from discontinued operations attributable to:		
Shareholders of the Company	120,491	(20,134)
Non-controlling interest	(26,475)	(13,642)
	94,016	(33,776)

25. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS effective April 3, 2011, with a transition date of April 4, 2010 ("transition date"). Prior to the adoption of IFRS, the Company presented its consolidated financial statements in accordance with Canadian GAAP. The Company's consolidated financial statements for the 52 weeks ended March 31, 2012 are the first audited annual consolidated financial statements prepared in accordance with the requirements of IFRS.

The Company's basis of presentation and significant accounting policies presented in notes 3 and 4 have been applied in preparing the consolidated financial statements for the 52-week period ended March 31, 2012, the comparative consolidated financial statements for the 52-week period ended April 2, 2011, and the opening consolidated balance sheet as at April 4, 2010.

IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting year retrospectively. However, IFRS 1 does include certain mandatory exemptions and limited optional exemptions from this general requirement. The following mandatory exemptions apply to the Company:

(i) Estimates

Estimates made in accordance with IFRS at transition date are consistent with those determined under CGAAP, except where they were impacted by a difference in accounting policy.

(ii) Non-controlling Interests

Certain requirements of IAS 27, "Consolidated and Separate Financial Statements," were applied on a prospective basis beginning on transition date.

The Company has applied certain of these optional exemptions as described below:

(i) Share-based Payments ("IFRS 2")

This exemption allows the Company not to apply IFRS 2 to equity instruments granted on or before November 7, 2002 or to equity instruments granted after November 7, 2002 that had vested by the transition date. The Company has elected to apply this exemption on the transition date.

(ii) Borrowing Costs ("IAS 23")

This exemption allows the Company to prospectively adopt IAS 23, which requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to ready for its intended use or sale. The Company has elected to apply the requirements of IAS 23 prospectively beginning on the transition date.

(iii) Business Combinations ("IFRS 3")

This exemption allows the Company to elect not to apply IFRS 3 to business combinations that occurred prior to the transition date. Under this exemption, any goodwill arising on such business combinations remains at the carrying value determined under CGAAP. The Company has elected not to restate historic business combinations which occurred prior to the transition date.

(iv) Fair Value or Revaluation as Deemed Cost

IFRS 1 provides a choice between measuring property, plant and equipment at its fair value on transition date and using those amounts as deemed cost, or using the historical valuation under the previous GAAP. The Company has elected not to apply this exemption. The Company will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS.

(v) Arrangements Containing Leases

This exemption applies to first-time adopters who have made a determination of whether an arrangement contained a lease in accordance with a previous GAAP. If the determination made under the first-time adopter's previous GAAP would have resulted in the same outcome as application of IAS 17, "Leases," and IFRIC 4, "Determining Whether an Arrangement Contains a Lease," then the first-time adopter is not required to reassess that determination when it adopts IFRS. The Company has elected to apply this exemption.

An explanation of how the transition from CGAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following reconciliations and in the notes accompanying the reconciliations.

Reconciliation of Equity from CGAAP to IFRS

The following is a reconciliation of the Company's total shareholders' equity reported in accordance with CGAAP to its total equity in accordance with IFRS as at April 4, 2010 and April 2, 2011:

(thousands of Canadian dollars)	Notes	April 2, 2011	April 4, 2010
Total shareholders' equity as reported under Canadian GAAP		263,120	258,969
Differences increasing (decreasing) reported amount:			
Deferred credit	1	3,092	12,945
Impairment of capital assets	2	(6,965)	(2,679)
Stock-based compensation	3	(23)	(82)
Future tax asset	4	1,792	705
Indigo portion of changes in Kobo	5	(186)	(94)
Dilution gain	6	(3,915)	–
Reclassification of non-controlling interest to total equity under IFRS	7	6,347	6,831
Adjustments to non-controlling interest	5	4,101	94
Total equity as reported under IFRS		267,363	276,689

See accompanying notes

Reconciliation of consolidated earnings (loss) and comprehensive earnings (loss) from CGAAP to IFRS

The following is a reconciliation of the Company's total consolidated earnings (loss) and comprehensive earnings (loss) reported in accordance with CGAAP to its total consolidated earnings (loss) and comprehensive earnings (loss) in accordance with IFRS for fiscal 2011:

Reconciliation of Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss) for the 52 Weeks Ended April 2, 2011

(thousands of Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
Revenues		956,449	–	–	956,449	**Revenues**
Cost of sales, operations, selling and administration	8	899,992	–	(356,984)	543,008	Cost of sales
		56,457	–	356,984	413,441	**Gross profit**
	3,8	–	4,911	383,016	387,927	Operating and administrative expenses
Depreciation of property, plant and equipment	2	18,965	(596)	(18,369)	–	
Amortization of intangible assets		7,663	–	(7,663)	–	
		29,829	(4,315)	–	25,514	**Operating earnings**
Interest on long-term debt and financing charges		212	–	–	212	Interest on long-term debt and financing charges
Interest income on cash and cash equivalents		(515)	–	–	(515)	Interest income on cash and cash equivalents
Dilution gain on reduction of ownership in subsidiary	6	(3,915)	3,915	–	–	
Earnings before income taxes		34,047	(8,230)	–	25,817	**Earnings before income taxes**
Income tax expense						Income tax expense
Current		1,214	–	–	1,214	Current
Future	1,4	1,445	8,766	–	10,211	Deferred
		2,659	8,766	–	11,425	
Net earnings and comprehensive earnings for the period from continuing operations		31,388	(16,996)	–	14,392	Net earnings and comprehensive earnings for the period from continuing operations
Net loss and comprehensive loss for the period from discontinued operations (net of taxes)	5	(33,620)	(156)	–	(33,776)	Net loss and comprehensive loss for the period from discontinued operations (net of taxes)
Net loss and comprehensive loss for the period		(2,232)	(17,152)	–	(19,384)	**Net loss and comprehensive loss for the period**

See accompanying notes

Reconciliation of balance sheets from CGAAP to IFRS

The following are reconciliations of the Company's consolidated balance sheets reported in accordance with CGAAP to its consolidated balance sheets in accordance with IFRS for the following periods:

Reconciliation of Consolidated Balance Sheet as at April 2, 2011

(thousands of Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS						**ASSETS**
Current						**Current**
Cash and cash equivalents	9	83,021	–	640	83,661	Cash and cash equivalents
Restricted cash	9	640	–	(640)	–	
Accounts receivable		12,684	–	–	12,684	Accounts receivable
Inventories		232,694	–	–	232,694	Inventories
Prepaid expenses		7,941	–	–	7,941	Prepaid expenses
Future tax assets	9	5,393	–	(5,393)	–	
Total current assets		342,373	–	(5,393)	336,980	**Total current assets**
Property, plant and equipment	2	85,736	(6,959)	–	78,777	Property, plant and equipment
Intangible assets	2	30,620	(6)	–	30,614	Intangible assets
Goodwill		26,632	–	–	26,632	Goodwill
Future tax assets	4,9	30,819	1,792	5,393	38,004	Deferred tax assets
Total assets		516,180	(5,173)	–	511,007	**Total assets**
LIABILITIES AND SHAREHOLDERS' EQUITY						**LIABILITIES AND EQUITY**
Current						**Current**
Accounts payable and accrued liabilities	1,3,9	224,959	(3,069)	(40,991)	180,899	Accounts payable and accrued liabilities
	9	–	–	40,991	40,991	Unredeemed gift card liability
Deferred revenue		11,528	–	–	11,528	Deferred revenue
Income taxes payable		657	–	–	657	Income taxes payable
Current portion of long-term debt		1,290	–	–	1,290	Current portion of long-term debt
Total current liabilities		238,434	(3,069)	–	235,365	**Total current liabilities**
Long-term accrued liabilities		6,284	–	–	6,284	Long-term accrued liabilities
Long-term debt		1,995	–	–	1,995	Long-term debt
Total liabilities		246,713	(3,069)	–	243,644	**Total liabilities**
Shareholders' equity						**Equity**
Share capital	3	202,196	24	–	202,220	Share capital
Contributed surplus	3	5,039	1,027	–	6,066	Contributed surplus
Retained earnings	1-7	55,885	(7,256)	–	48,629	Retained earnings
Total shareholders' equity		263,120	(6,205)	–	256,915	**Total equity attributable to shareholders of the Company**
Non-controlling interest	5,6,7	6,347	4,101	–	10,448	Non-controlling interest
					267,363	**Total equity**
Total liabilities and shareholders' equity		516,180	(5,173)	–	511,007	**Total liabilities and equity**

See accompanying notes

Reconciliation of Consolidated Balance Sheet as at April 4, 2010

(thousands of Canadian dollars)

Canadian GAAP accounts	Notes	Canadian GAAP balance	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS						**ASSETS**
Current						**Current**
Cash and cash equivalents	9	103,489	–	409	103,898	Cash and cash equivalents
Restricted cash	9	409	–	(409)	–	
Accounts receivable		8,455	–	–	8,455	Accounts receivable
Inventories		224,406	–	–	224,406	Inventories
Income taxes recoverable		899	–	–	899	Income taxes recoverable
Prepaid expenses		6,771	–	–	6,771	Prepaid expenses
Future tax assets	9	6,615	–	(6,615)	–	
Total current assets		351,044	–	(6,615)	344,429	**Total current assets**
Property, plant and equipment	2	77,478	(2,678)	–	74,800	Property, plant and equipment
Intangible assets	2	23,794	(1)	–	23,793	Intangible assets
Goodwill		26,632	–	–	26,632	Goodwill
Future tax assets	4,9	40,894	705	6,615	48,214	Deferred tax assets
Total assets		519,842	(1,974)	–	517,868	**Total assets**
LIABILITIES AND SHAREHOLDERS' EQUITY						**LIABILITIES AND EQUITY**
Current						**Current**
Accounts payable and accrued liabilities	1,3,9,10	229,920	(12,863)	(37,994)	179,063	Accounts payable and accrued liabilities
	9	–	–	37,816	37,816	Unredeemed gift card liability
	10	–	–	178	178	Provisions
Deferred revenue		12,882	–	–	12,882	Deferred revenue
Current portion of long-term debt		1,863	–	–	1,863	Current portion of long-term debt
Total current liabilities		244,665	(12,863)	–	231,802	**Total current liabilities**
Long-term accrued liabilities		8,203	–	–	8,203	Long-term accrued liabilities
Long-term debt		1,174	–	–	1,174	Long-term debt
Total liabilities		254,042	(12,863)	–	241,179	**Total liabilities**
Shareholders' equity						**Equity**
Share capital	3	198,635	–	–	198,635	Share capital
Contributed surplus	3	4,670	963	–	5,633	Contributed surplus
Retained earnings	1-7	55,664	9,832	–	65,496	Retained earnings
Total shareholders' equity		258,969	10,795	–	269,764	**Total equity attributable to shareholders of the Company**
Non-controlling interest	5,7	6,831	94	–	6,925	Non-controlling interest
					276,689	**Total equity**
Total liabilities and shareholders' equity		519,842	(1,974)	–	517,868	**Total liabilities and equity**

See accompanying notes

Notes to the reconciliations

1. Framework for the Preparation and Presentation of Financial Statements (the "Framework")

   Under CGAAP, Indigo acquired a company with non-capital tax losses and recorded a related future tax asset. The difference between the future tax asset and the net cash consideration paid by Indigo was recorded as a deferred credit and amortized into earnings over the same period as the related future tax asset.

   Under the IFRS Framework, the difference between the net cash consideration and the deferred tax asset does not have the characteristics of a liability and therefore cannot be recorded as a deferred credit and amortized into earnings. Under IFRS, the difference must be immediately recognized in retained earnings.

   As a result, the Company has reclassified the CGAAP deferred credit and related amortization into retained earnings under IFRS.

2. Impairment of Capital Assets ("IAS 36")

   CGAAP uses a two-step approach to capital asset impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. Impairment testing for Indigo was performed at a Company-wide level and reversal of impairment losses was prohibited.

   IFRS uses a one-step approach in both testing for and measurement of impairment, with CGU carrying values compared directly with value in use. Capital asset impairment testing for Indigo is performed at the store level and previously recognized impairment losses will be reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

   The Company has revised its impairment testing model to comply with the requirements of IAS 36. Under the IFRS testing model, the Company recognized increased impairment of capital assets with a corresponding decrease to retained earnings. The estimates used for this analysis were consistent with the estimates used under CGAAP and were adjusted for accounting policy differences where necessary. CGAAP amortization related to the impaired capital assets was also adjusted as part of the IFRS transition. The Company did not identify any reversals of previously recorded impairment losses.

3. Share-based Payments ("IFRS 2")

   Under CGAAP, share-based payment expenses were recognized on a straight-line basis over the vesting period, forfeitures were accounted for as they occurred, and the fair values of cash-settled share-based payment awards were measured by reference to market value of the related shares.

   Under IFRS, each tranche of a share-based payment is considered a separate grant with a different vesting date and fair value, and each tranche is accounted for separately using graded vesting. Forfeitures must be estimated and recognized in the current period, with revisions for actual forfeitures in subsequent periods. The fair value of cash-settled share-based compensation awards is measured using a valuation model, with the offset recorded as a liability.

   The methodology of calculating the Company's share-based payment expense was revised to be in compliance with the above IFRS requirements. Accordingly, IFRS adjustments made to the Company's total share-based payment expense resulted in a net decrease to retained earnings.

4. Tax Impact of IFRS Transition

   Impairment of capital assets recorded as part of the Company's IFRS transition resulted in a change in temporary differences for income tax purposes.

5. Kobo IFRS Impact

Kobo converted to IFRS using the same transition date as Indigo. The only IFRS difference identified for Kobo related to share-based payments. Consistent with Indigo, the methodology of calculating Kobo's share-based payment expense was revised to be in compliance with IFRS 2 requirements. As a result of IFRS transition adjustments impacting Kobo's financial position and financial performance, Indigo adjusted for the impact on the Company's portion of Kobo's financial position and financial performance and the impact on non-controlling interest.

6. Consolidated and Separate Financial Statements ("IAS 27")

Under CGAAP, when the issue of shares by a subsidiary results in the reduction of a parent's ownership of the subsidiary without a loss of control, the difference between the net consideration paid by the parent and the change in the parent's share of the subsidiary's net identifiable assets is accounted for as a dilution gain.

Under IAS 27, changes in a parent's ownership interest in a subsidiary which do not result in a loss of control are accounted for as equity transactions.

As part of the Company's transition to IFRS, the CGAAP dilution gain has been reversed, resulting in a reduction to earnings and a corresponding increase to non-controlling interest.

7. Presentation of Non-controlling Interest

A difference exists between CGAAP and IFRS with respect to the presentation of non-controlling interest. Under CGAAP, non-controlling interest was presented as a separate line item and excluded from total shareholders' equity while under IFRS, non-controlling interest is included as part of total equity.

8. Presentation of Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

The Company classifies expenses according to their function and under IFRS, the Company is required to disclose its cost of sales separately from operating and administrative expenses.

9. Presentation of Consolidated Balance Sheets

Restricted cash: IFRS does not require presentation of restricted cash as a separate line item on the face of the balance sheets. Following a review of the Company's cash disclosure requirements under IFRS, management has chosen to disclose restricted cash in its note disclosures instead of on the face of the balance sheets.

Deferred income tax: Under IFRS terminology, future tax assets have been renamed to deferred tax assets. IFRS does not separately present deferred tax assets as current and non-current. As such, CGAAP current future tax assets have been reclassified as IFRS non-current deferred tax assets on the Company's consolidated balance sheets.

Unredeemed gift card liability: IFRS requires separate presentation of certain liabilities. As such, amounts have been reclassified from current accounts payable and accrued liabilities to unredeemed gift card liability.

10. Provisions, Contingent Liabilities and Contingent Assets ("IAS 37")

Under CGAAP, a provision was recorded based on the likely probability that payment or surrender of assets would be required to fulfill the obligation. However, under IAS 37, a provision must be recorded when it is probable or more likely than not, which is a lower threshold for recognition than CGAAP.

IAS 37 requires an entity to recognize a provision when a contract becomes onerous (i.e., when it has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it). The unavoidable costs under a contract reflect the lowest net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision. CGAAP only requires the recognition of such a liability in certain prescribed situations. IFRS also requires separate presentation of provisions.

In conformity with IFRS presentation requirements, amounts were reclassified between accounts payable and accrued liabilities and provisions, as they met IFRS criteria for recognition as a provision. The Company has reviewed its obligations at transition date, including a full review of store leases, and did not recognize any new provisions as at April 2, 2011 and April 4, 2010.

Statement of cash flows

Under CGAAP, income taxes, interest expense and related amounts paid or received were not disclosed on the face of the statement of cash flows. Under IFRS, disclosure of these balances is required on the statement of cash flows instead of as a supplementary note disclosure. There have been no material adjustments to the consolidated statement of cash flows. The components of cash and cash equivalents under CGAAP are consistent with those presented under IFRS.

Corporate Governance Policies

A presentation of Indigo's corporate governance policies is included in the Management Information Circular which is mailed to all shareholders. If you would like to receive a copy of this information, please contact Investor Relations at Indigo.

Executive Management and Board of Directors

EXECUTIVE MANAGEMENT

Heather Reisman
Chair & Chief Executive Officer

Kay Brekken
Chief Financial Officer

Ray Camano
Executive Vice President & Chief General Merchant

Laura Dunne
Senior Vice President, Human Resources & Organizational Development

Kathleen Flynn
General Counsel & Corporate Secretary

Joyce Gray
Group Executive Vice President, Consumer Experience & Print

Deirdre Horgan
Chief Marketing Officer

Mike Mortson
Executive Vice President, Supply Chain

Sumit Oberai
Chief Information Officer

BOARD OF DIRECTORS

Frank Clegg
Chairman
Navantis Inc.

Jonathan Deitcher
Investment Advisor
RBC Investments

Mitchell Goldhar
President & Chief Executive Officer
SmartCentres

James Hall
President & Chief Executive Officer
James Hall Advisors Inc.

Michael Kirby
Corporate Director
Chair of Partners for Mental Health

Anne Marie O'Donovan
Executive Vice-President & Chief Administration Officer, Global Banking and Markets
Scotiabank

Heather Reisman
Chair & Chief Executive Officer
Indigo Books & Music Inc.

Joel Silver
Managing Partner
Trilogy Growth

Gerald Schwartz
Chairman, President & Chief Executive Officer
Onex Corporation

Five Year Summary of Financial Information

For the years ended (millions of Canadian dollars, except share and per share data)	IFRS March 31, 2012	IFRS April 2, 2011	Canadian GAAP April 3, 2010	Canadian GAAP March 28, 2009	Canadian GAAP March 29, 2008
SELECTED STATEMENTS OF EARNINGS INFORMATION					
Revenues					
Superstores	**656.5**	667.6	670.5	634.7	620.0
Small format stores	**145.2**	149.4	159.3	166.8	159.7
Online	**93.2**	90.6	92.2	95.2	101.4
Other	**39.1**	48.8	46.1	43.7	41.8
Total revenues	**934.0**	956.4	968.1	940.4	922.9
EBITDA[1]	**26.4**	56.4	76.1	72.5	73.9
Earnings (loss) before income taxes	**(29.3)**	25.8	49.8	45.8	44.0
Net earnings (loss) and comprehensive earnings (loss)	**66.2**	(19.4)	34.9	30.7	52.8
Dividends per share	**$0.44**	$0.44	$0.40	–	–
Net earnings (loss) per common share	**$3.68**	$(0.23)	$1.42	$1.24	$2.13
SELECTED BALANCE SHEET INFORMATION					
Working capital	**224.1**	101.6	106.4	87.1	76.6
Total assets	**592.5**	511.0	519.8	487.5	421.0
Long-term debt (including current portion)	**2.2**	3.3	3.0	5.0	6.0
Total equity	**355.6**	267.4	259.0	230.9	203.8
Long-term debt/(long-term debt + total equity)	**0.01:1**	0.01:1	0.01:1	0.02:1	0.03:1
Weighted average number of shares outstanding	**25,201,127**	24,874,199	24,549,622	24,674,523	24,744,334
Common shares outstanding at end of period	**25,238,414**	25,140,540	24,742,915	24,526,272	24,843,147
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**97**	97	96	90	86
Small format stores	**143**	150	151	157	158
Selling square footage at end of period (in thousands)					
Superstores	**2,235**	2,235	2,217	2,110	2,042
Small format stores	**400**	413	417	420	422
Comparable store sales					
Superstores	**(1.9%)**	(0.3%)	0.6%	2.4%	4.4%
Small format stores	**(0.8%)**	(3.2%)	(2.2%)	4.3%	3.0%
Sales per selling square foot					
Superstores	**294**	299	302	301	304
Small format stores	**363**	362	382	397	378

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

Investor Information

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Toronto Stock Exchange

TRADING SYMBOL

IDG

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AUDITORS

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Ernst & Young Tower
Toronto-Dominion Centre
Toronto, Ontario
Canada M5K 1J7

ANNUAL MEETING

The Annual Meeting represents an opportunity for shareholders to review and participate in the management of the Company as well as meet with its directors and officers.

Indigo's Annual Meeting will be held on
June 27, 2012 at 10:00 a.m. at
Torys LLP
79 Wellington Street West, 33rd Floor
Toronto, Ontario
Canada M5K 1N2

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Transforming Lives One Book at a Time

Since 2004 the Indigo Love of Reading Foundation has enriched the lives of thousands of Canadian children. To date we have committed $13 million to more than 580 high-needs elementary schools in the country. Together with Indigo employees and customers, over one million books have been put into the hands of children, resulting in increased literacy scores, stronger self-esteem and brighter futures.

In particular, our $1.5 million Literacy Fund grant has transformed the recipient schools and their communities listed below:

Alberta
Balwin School, Edmonton (2012)
Barons School, Barons (2011)
Belfast School, Calgary (2009)
Brightview Elementary School, Edmonton (2010)
Capitol Hill School, Calgary (2009)
Glendale Elementary, Edmonton (2009)
Holy Redeemer, Calgary (2007)
Inglewood, Edmonton (2010)
John A. McDougall School, Edmonton (2012)
Keeler Elementary School, Calgary (2010)
Parkdale School, Edmonton (2008)
Penbrooke Meadows Elementary, Calgary (2011)
Prince Charles Elementary School, Edmonton (2008)
Sherwood School, Edmonton (2012)
St. Francis of Assisi, Edmonton (2005)
St. Louis School, Medicine Hat (2006)
St. Maria Goretti Catholic School, Edmonton (2011)

British Columbia
Abbotsford Middle School, Abbotsford (2011)
Barrowtown Elementary, Abbotsford (2012)
Cedar Hills Elementary School, Surrey (2012)
Conrad Street Elementary School, Prince Rupert (2008)
David Hoy Elementary School, Fort St. James (2007)
Douglas Park Community School, Langley (2005)
Graham Bruce Elementary School, Vancouver (2006)
Grandview/¿uuqinak'uuh Elementary, Vancouver (2009)
Holly Elementary School, Surrey (2009)
KB Woodward Elementary School, Surrey (2010)
Kinnikinnick Elementary, Sechelt (2010)
Lena Shaw Elementary School, Surrey (2008)
Lord Beaconsfield Elementary, Vancouver (2005)
Lord Selkirk, Vancouver (2011)
Lucerne Elementary Secondary School, New Denver (2009)
Nootka Elementary School, Vancouver (2006)
Queen Alexandra Elementary School, Vancouver (2007)
Thornhill Elementary School, Terrace (2012)
Thunderbird Elementary, Vancouver (2011)
Tillicum Community Annex, Vancouver (2010)
Tomsett Elementary, Richmond (2011)

Manitoba
Arborgate School, La Broquerie (2009)
Betty Gibson School, Brandon (2009)
Dawson Trail School, Lorette (2010)
Dufferin School, Winnipeg (2011)
Kelsey Community School, The Pas (2008)
King Edward Community School, Winnipeg (2009)
King George School, Brandon (2012)
Lavallee School, Winnipeg (2010)
Lundar School, Lundar (2005)
North Memorial School, Portage la Prairie (2008)
Oak Lake Community School, Oak Lake (2010)
Plum Coulee Elementary School, Plum Coulee (2008)
Sister MacNamara, Winnipeg (2011)
Wellington Elementary School, Winnipeg (2007)
William Whyte Community School, Winnipeg (2006)

New Brunswick
Burnt Church Esgenoopetitj School, Burnt Church (2007)
Elsipogtog First Nation School, Elsipogtog (2008)
Forest Glen School, Moncton (2005)
Glen Falls Elementary School, Saint John (2012)
Mountain View Elementary, Irishtown (2011)
South Devon Elementary School, Fredericton (2006)
St. Patrick's School, Saint John (2009)
Upper Miramichi Elementary School, Boiestown (2010)

Newfoundland and Labrador
Acreman Elementary, Green's Harbour (2011)
Bishop Feild School, St. John's (2010)
Helen Tulk Elementary School, Bishop's Falls (2012)
Jakeman All Grade, Trout River (2012)
St. John Bosco School, Shea Heights (2009)
Stephenville Primary School, Stephenville (2006)
Woodland Primary School, Grand Falls-Windsor (2008)

Nova Scotia
Central Spryfield Elementary School, Halifax (2006)
Chiganois Elementary, Masstown (2007)
Evangeline Middle School, New Minas (2011)
Gold River-Western Shore Elementary School, Western Shore (2009)
John Martin Junior High School, Dartmouth (2010)
Nelson Whynder Elementary School, Dartmouth (2012)
Sheet Harbour Consolidated, Sheet Harbour (2009)
South Centennial Elementary School, Yarmouth (2008)
Southdale-North Woodside School, Dartmouth (2005)
Windsor Forks District School, Curry's Corner (2010)

Northwest Territories
École St. Joseph, Yellowknife (2009)
Mildred Hall Elementary School, Yellowknife (2010)
Sir Alexander Mackenzie School, Inuvik (2008)
Weledeh Catholic School, Yellowknife (2007)

Ontario
A.R. Kaufman Public School, Kitchener (2009)
Abe Scatch Memorial School, Poplar Hill (2008)
Alexander Muir/Gladstone, Toronto (2008)
Armadale Public School, Markham (2011)
Blessed John XXIII Catholic Elementary School, Toronto (2012)
Central Public School, Brantford (2012)
Delhi Public School, Delhi (2012)
Dovercourt Junior Public School, Toronto (2006)
Dunrankin Drive Public School, Mississauga (2011)
East View Public School, Sault Ste. Marie (2009)
Eastwood Public School, Windsor (2011)
Fenelon Township Public School, Cameron (2008)
First Nations School of Toronto, Toronto (2011)
Houghton Public School, Langton (2010)
Keith Wightman Public School, Peterborough (2006)
Kent Public School, Campbellford (2010)
King Edward Public School, Kitchener (2005)
Mary Street Community School, Oshawa (2005)
McHugh Public School, Brampton (2009)
Ogden Community School, Thunder Bay (2007)
Parkdale Junior and Senior Public School, Toronto (2012)
Pinecrest Public School, Ottawa (2005)
Queen Victoria Public School, Toronto (2011)
Roxborough Park Public School, Hamilton (2008)
Sherbrooke Public School, Thunder Bay (2012)
Sir John A. MacDonald Public School, London (2007)
St. David Catholic Elementary, Sudbury (2010)
William G. Davis, Windsor (2012)

Impact to Date

We passionately believe that when a child has a book put in their hands, it changes their life – and their community's – forever.

- Children's literacy scores increase in the first year of the grant
- Library circulation increases by over 35%
- Self-esteem is strengthened as children become more confident readers
- The school becomes the heart of the community, restoring its pride and hope for a better future

Prince Edward Island
Belfast Consolidated School, Belle River (2008)
Eliot River Elementary, Cornwall (2012)
Prince Street Elementary School, Charlottetown (2008)

Quebec
Butler Elementary School, Bedford (2005)
Maniwaki Woodland School, Maniwaki (2010)
New Carlisle High School, New Carlisle (2009)
Orchard Elementary School, LaSalle (2008)
Riverview Elementary School, Verdun (2006)
Shigawake Port Daniel School, Shigawake (2008)
Verdun Elementary, Verdun (2011)

Saskatchewan
Connaught Community School, North Battleford (2011)
Glen Elm School, Regina (2008)
King George Community School, Saskatoon (2011)
McKitrick Community School, North Battleford (2009)
Pleasant Hill Community School, Saskatoon (2007)
Princess Alexandra Community School, Saskatoon (2009)
Riverside Community School, Prince Albert (2012)
St. Augustine Community School, Regina (2010)
St. Catherine Community School, Regina (2012)
Westview Community School, Prince Albert (2010)

Our Beliefs

- We exist to add joy to customers' lives – when they interact with us and, when they interact with our products.

- Each and every person in the company should understand how his or her work contributes to the creation of joyful customer moments.

- We owe to each other, irrespective of role or position, the same level of respect and caring as we would show to a valued friend.

- We have a responsibility to create an environment where each individual is inspired to perform to the best of his or her ability.

- Passion, creativity and innovation are the keys to sustainable growth and profitability. Each individual working at Indigo should reflect this in his or her work. Our role, as a company, is to encourage and reward the demonstration of these attributes.

- We have a responsibility to give back to the communities in which we operate.

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