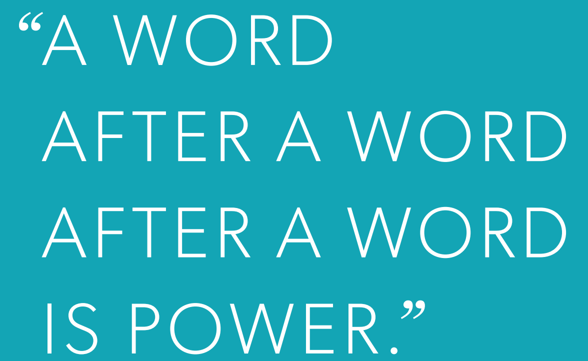

ANNUAL REPORT
FOR THE 53-WEEK PERIOD
ENDED APRIL 2, 2016

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*, *Coles*, *SmithBooks*, *Indigospirit*, *The Book Company*, and *indigo.ca*.
The Company employs approximately 6,200 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

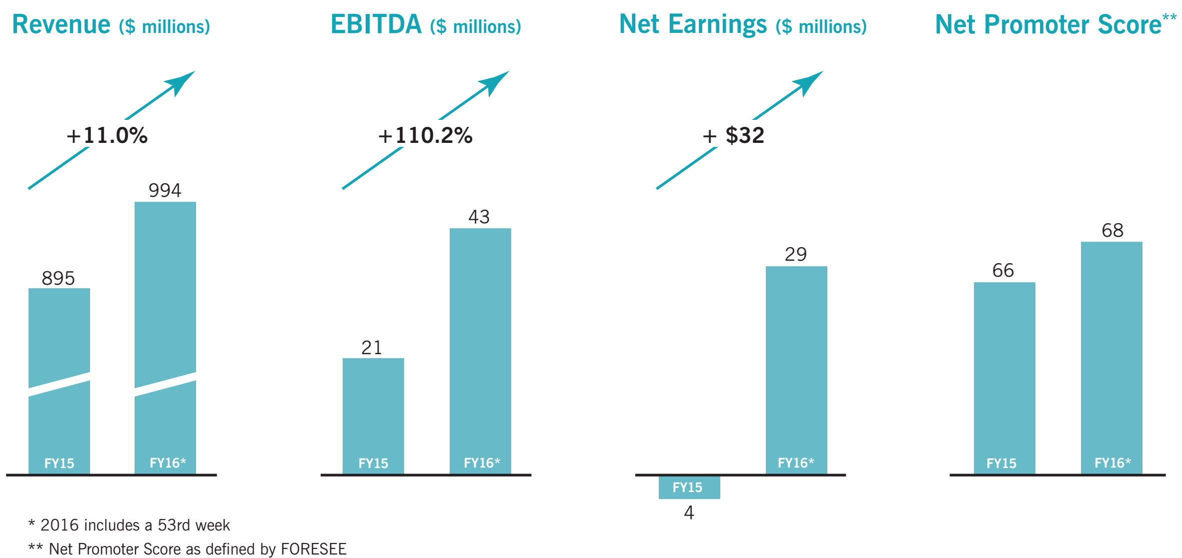
Dear Shareholder,

It is always a pleasure to be writing this Annual Letter to our shareholders.

This year it is particularly so. As I write this we are about to release our full results for our 2015/16 fiscal year. And what a great year it has been.

We grew sales to just shy of $1 billion, experiencing sales growth in both our retail channels and on our digital platforms.

In fact, all key metrics showed positive momentum. In addition to sales growth we enjoyed increases in comparable store sales, traffic, customer affection for our brand, EBITDA and net earnings.



Equally satisfying, Randstad Corporation announced that Indigo was the number one most highly thought of retail brand and the 4th brand overall to work for in Canada – a proud achievement for us indeed.

This year's performance represents the first indication that our efforts of the last few years are bearing fruit. A bit of context…

From the moment we experienced the advent of eReading, we recognized that the future before us would unfold in ways that would require us to fundamentally rethink our mission. To be sure we always believed that physical books would have a role long into the future – but we could no longer count on books being our only business. Our first initiative was the launch of Kobo – now the world's second most popular eReader. But our biggest commitment was to transform Indigo to become the world's first cultural department store – a multi-category experience with books at our core but with much more to offer our customers.

During the last few years we invested significantly to effect this transformation. Literally every aspect of our business needed to change to address our new ambition. It was a challenging period during which we invested to create capability and value in new areas while sustaining the financial impact of the drop in sales and profits that came with the physical book erosion. More than one newspaper pundit wrote about how Indigo's days were numbered. But we believed in our vision. And here we are – posting comparable store growth rates that will rank among the highest in the North American retail industry.

All that said, we are well aware that we have so much more to do. The opportunity to strengthen our Company and drive further growth exists in so many areas. And we are both energized and focused on turning the opportunities before us into reality.

Each year when I write in these pages I share, with some pride the work of the Indigo Love of Reading Foundation. LOR as we call it continues to be a very important initiative for us – fully aligned with our belief that we have a responsibility to give back. With the school grants made just after the close of the year, we bring to $23.5 million the total amount of money which Indigo has contributed to children and teachers in high needs schools across the country. The $23.5 million ignites a passion for reading in 750,000 children through the introduction of literally millions of books! In addition to our work directly with schools this year – Indigo has initiated a three-year study at McGill University to fully understand the impact of developing a love of reading at an early age. We will share more on this in future reports.

A bit of what is going on in the early part of 2016/17…

In May 2016, we opened our first new concept Indigo at CF Sherway Gardens Mall in Toronto. We hope many of our shareholders will have the opportunity to visit the store and share your views with us.

During this same month, we had the pleasure of reading a wonderful blog post by Andris Pone, a brand expert in Canada who wrote:

> *"For when I think about brilliant customer experience, there is a name that comes to mind instantly, and it is Indigo. Only in the past few years has the full quality of the experience truly registered with me, because the experience has always been so good: the experience of being a customer at Indigo is like being a fish in water."*

Also in May 2016 we launched *reco.com*, a new digital platform for sharing and discovering great books.

All in all it has been a great year. Thank you to our shareholders who have stuck with us during the "down" years and a *big thank you* to every single person at Indigo. I feel so very privileged to come to work with you each day.

I want to close by sharing that the spirit at Indigo is strong; there is a sense of pride in what has been accomplished and a feeling of excitement about the future.

See you in these pages next year.

Heather Reisman
Chair and Chief Executive Officer

Management's Responsibility for Financial Reporting

Management of Indigo Books & Music Inc. (the "Company") 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 the Company have been prepared in accordance with International Financial Reporting Standards, which involve management's best judgments and estimates based on available information.

The Company'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. The Board of Directors, along with the Company's management team, have reviewed and approved the consolidated financial statements and information contained within this report.

The Board of Directors monitors management's internal control and financial reporting responsibilities through an Audit Committee composed entirely of independent directors. This Committee meets regularly with senior management and the Company's internal and independent external auditors to discuss internal control, financial reporting, and audit matters. The Audit Committee also meets with the external auditors without the presence of management to discuss audit results.

Ernst & Young LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

Heather Reisman
Chair and Chief Executive Officer

Laura Carr
Chief Financial Officer

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 31, 2016 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 53-week period ended April 2, 2016 and the 52-week period ended March 28, 2015. 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.

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 ten provinces and one territory in Canada and offering online sales through the *indigo.ca* website and the Company's mobile applications. As at April 2, 2016, the Company operated 88 superstores under the banners *Chapters* and *Indigo* and 123 small format stores under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*. During fiscal 2016, the Company opened one small format store and closed three superstores and five small format stores. Subsequent to year end, the Company opened one new superstore. The Company also has a 50% interest in Calendar Club of Canada Limited Partnership ("Calendar Club"), which operates seasonal kiosks and year-round stores in shopping malls across Canada.

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

The weighted average number of common shares outstanding for fiscal 2016 was 25,949,068 compared to 25,722,640 last year. As at May 31, 2016, the number of outstanding common shares was 25,861,951 with a book value of $210.1 million. The number of common shares reserved for issuance under the employee stock option plan is 3,379,293 as at May 31, 2016. As at April 2, 2016, there were 1,751,800 stock options outstanding of which 651,550 were exercisable.

General Development of the Business

It has been 19 years since the Company launched its first superstore with a commitment to enriching Canadians' lives through books and complementary products. Much has changed since then, and continues to change, in both the book industry and the larger retail landscape. The *indigo.ca* website has expanded dramatically, offering customers an increased number of titles at a lower cost than a traditional physical bookstore along with a broad range of general merchandise. In addition, digital channels have provided customers with a completely new reading platform, instant accessibility, huge selection, and lower prices.

The Company 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, a digital and physical place inspired by and filled with books, ideas, beautifully designed products, and the creative people who make it all happen. As such, the Company remains committed to its transformational agenda and continues to invest in Indigo's brand and the customer experience, which will position the Company for sustained growth. More specifically, the Company's priorities remain focused on transforming its physical and digital platforms, building a high performance organization, and optimizing its cost structure.

The Company's development over the last three years and key strategies going forward are outlined below.

Be the Preeminent Destination for Books

Print books remain the core focus of the business, across both physical and digital channels. Both fiscal 2015 and 2016 saw a resurgence in physical book sales for both Indigo and the overall market. In fiscal 2016, the Company outgrew the market in physical books, increasing its overall market share. The Company has invested, and will continue to invest, in book growth, enhancing the overall customer experience and improving productivity. For example, in fiscal 2016, the Company introduced an expanded bestseller program, installed high density book fixtures in renovated stores, and improved buying and supply chain efficiencies. These efforts have enabled growth in book sales, while reducing returns and increasing inventory efficiency. The Company will continue to adapt and improve all aspects of its book offering in both physical and digital channels through fiscal 2017 and beyond.

Grow as a Gifting Destination

Concurrently, Indigo remains committed to becoming the premier year-round gifting destination in Canada. The Company continues to adapt and improve its position through the expansion of lifestyle and paper offerings, as well as its assortment of toys and games, with either dedicated toy sections or expanded toy offerings in all of its superstores and online. The Company's physical stores are continuously being renovated and refreshed as part of this transformation. In fiscal 2015, the Company launched three American Girl®[1] specialty boutiques and added three more in fiscal 2016. These locations marked the first international retail presence for the iconic brand and reinforced the Company's commitment to the importance of creative play for children. Also in fiscal 2016, the Company renovated seven stores (five superstores and two small format) to improve the customer experience and product offerings across the key gifting categories mentioned above. The Company will continue to renovate and transform its physical stores in fiscal 2017.

The Company also remains committed to expanding its proprietary product development capability, which primarily includes home, paper merchandise, and fashion accessories. This aspect of the business is part of the Company's focus on providing customers with meaningful and life-enriching merchandise while improving operating margins. The Company's design and global sourcing team in New York is responsible for the design and development of proprietary merchandise.

Transform Physical and Digital Platforms

The distinction between physical retail and digital retail is becoming increasingly blurred as customers expect to have a similar experience with a brand regardless of channel. Recognizing this, the Company has focused on improving the omni-channel customer experience with initiatives that better integrate physical and digital retail. The Company's "buy online, ship to store" initiative allows customers to buy products online and have them shipped to one of Indigo's stores at no charge. This service provides customers with additional flexibility to decide where and when purchases are picked up and reduces the Company's shipping costs.

In addition to reshaping Indigo's physical store offerings, the Company's website and mobile applications have continued to adjust and adapt to reflect the changing assortment mix. The Company has built a strong social media presence across Facebook, Instagram, Pinterest, and Twitter, with half a million followers on Facebook and over 100,000 on Instagram. The Company also launched a dedicated IndigoKids® Facebook page in fiscal 2016. In fiscal 2017 and beyond, Indigo will continue to enhance all aspects of its digital platforms and presence, including an improved mobile experience. Furthermore, the Company continues to maintain a strong relationship with Kobo and sell the eReaders and eReading services customers have come to love.

Optimizing the Company's plum rewards loyalty program was also a key area of focus in fiscal 2016. Loyalty programs are highly relevant to both the physical and digital customer experience. The Company has two loyalty programs; irewards (fee-based) and plum rewards (free, points-based). Both programs offer member discounts, and plum rewards also offers redeemable points on almost all product purchases in-store and online. The success of these programs creates a rich understanding of the Company's customers, as well as direct marketing and communication opportunities with Indigo's best customers. Going forward, the Company will increase its capabilities to utilize this data to personalize each touchpoint with customers across all channels and provide a rich omni-channel shopping experience.

[1] American Girl is a registered trademark of American Girl, LLC.

Drive Productivity Improvement

While a key focus of the Company's business is evolving to meet the emerging needs of customers, Indigo 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 the services Indigo delivers to its customers. In particular, over the last three years, the Company has focused on implementing an integrated planning system to improve merchandise management and supply chain productivity initiatives designed to further reduce costs, deliver improved operating margins, and improve service to customers.

In fiscal 2015, the Company focused on driving end-to-end productivity through supply chain projects that were designed to improve the flow of merchandise and margin rates. Specifically, Indigo drove improved assortment productivity and captured efficiencies in the physical book supply chain. The Company's supply chain will continue on its transformative journey beginning with the implementation of automation in its online fulfillment centre that is expected to increase throughput capacity by 50% and increase productivity by 33%.

The Company continues to target processes for re-engineering, cost rationalization, and improving customer value. In fiscal 2016, the company re-engineered the highly cross-functional promotions process and began the process of implementing a new product information management system. In fiscal 2017, Indigo will focus on continuing to drive end-to-end productivity and process efficiency, both in the supply chain and across the Company.

Employee Engagement

The Company's strategic efforts continue to focus on building and maintaining high levels of employee engagement. In May 2016, Indigo's employee engagement focus was again recognized outside of the Company, being named the top Canadian retail employer brand, and number four overall, according to the annual award given by Randstad Canada, a staffing, recruitment, and HR company. The Randstad award rewards and encourages best practices in building the best employer brands and is the only employer award where winners are chosen entirely by workers and by job seekers in search of employment opportunities within Canada's leading organizations. The Company has ranked in the Top 20 Most Attractive Employer Brands in Canada since Randstad launched the program in 2011.

The Company realizes that sustaining high levels of employee engagement is an ongoing responsibility and continues to commit resources to specific initiatives designed to make Indigo one of the best places to work. Efforts to boost employee satisfaction include the continuous improvement of core work process design and the implementation of systems upgrades. Improvements to communication, training and development, and performance management are also ongoing.

Results of Operations

The following three tables summarize selected financial and operational information for the Company. The classification of financial information presented below is specific to the Company and may not be comparable to that of other retailers. The selected financial information is derived from the audited consolidated financial statements for the 53-week period ended April 2, 2016 and the 52-week period ended March 28, 2015.

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)	53-week period ended April 2, 2016	% Revenue	52-week period ended March 28, 2015	% Revenue
Revenue	**994.2**	**100.0**	895.4	100.0
Cost of sales	**(551.2)**	**55.4**	(503.1)	56.2
Cost of operations	**(294.7)**	**29.6**	(281.4)	31.4
Selling, administrative, and other expenses	**(105.2)**	**10.7**	(90.4)	10.1
Adjusted EBITDA[1]	**43.1**	**4.3**	20.5	2.3

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

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

(millions of Canadian dollars, except per share data)	53-week period ended April 2, 2016	52-week period ended March 28, 2015	52-week period ended March 29, 2014
Revenue			
Superstores	695.3	625.2	607.2
Small format stores	140.2	127.8	127.4
Online (including store kiosks)	133.3	114.0	102.0
Other	25.4	28.4	31.1
	994.2	895.4	867.7
Net earnings (loss) and comprehensive earnings (loss) for the period	28.6	(3.5)	(31.0)
Total assets	584.0	538.4	512.6
Long-term debt (including current portion)	0.1	0.2	0.8
Working capital	217.9	198.7	189.7
Basic earnings (loss) per share	$1.10	$(0.14)	($1.21)
Diluted earnings (loss) per share	$1.09	$(0.14)	($1.21)

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

	53-week period ended April 2, 2016	52-week period ended March 28, 2015	52-week period ended March 29, 2014
Comparable Store Sales[1]			
Superstores	12.8%	6.8%	(0.9%)
Small format stores	10.9%	0.8%	(5.0%)
Stores Opened			
Small format stores	1	–	–
	1	–	–
Stores Closed			
Superstores	3	4	2
Small format stores	5	4	3
	8	8	5
Number of Stores Open at Year-End			
Superstores	88	91	95
Small format stores	123	127	131
	211	218	226
Selling Square Footage at Year-End (in thousands)			
Superstores	1,961	2,056	2,200
Small format stores	354	361	370
	2,315	2,417	2,570

1 See “Non-IFRS Financial Measures”.

Revenue Increased Despite Operating Fewer Stores

Total consolidated revenue for the 53-week period ended April 2, 2016 increased $98.8 million or 11.0% to $994.2 million from $895.4 million for the 52-week period ended March 28, 2015. Part of this increase was due to the inclusion of one additional week of revenue for the 53-week period in fiscal 2016 compared to the 52-week period in fiscal 2015. On a normalized 52-week basis, total revenues were 9.5% higher compared to the same period last year. Higher revenue was driven by continued growth in all sales channels across a number of product categories and by more effective use of promotional discounting compared to last year. General merchandise sales continued to show double-digit growth, with units and average unit price increasing in all categories. The toy business also benefited from the opening of three new American Girl® specialty boutiques during the year. Book sales continued to be strong, with high single-digit growth during the year due to a combination of popular titles and the trend for adult colouring books.

Comparable store sales for the fiscal year increased 12.8% in superstores and 10.9% in small format stores. The increase was mainly driven by the reasons discussed above. The Company also implemented a number of significant renovations in retail locations throughout the year. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store openings and closings, permanent relocation, and material changes in square footage. As at April 2, 2016, the Company operated three fewer superstores and four fewer small format stores compared to March 28, 2015.

Online sales increased by $19.3 million or 16.9% to $133.3 million for 53-week period ended April 2, 2016 compared to $114.0 million last year. On a normalized 52-week basis, total online sales were 15.3% higher compared to the same period last year. Online sales continued to experience growth in books and double-digit increases in general merchandise. This growth was driven by higher traffic and conversion rates as a result of successful promotional campaigns and a continued focus on gaining multi-channel customers. During the year, the Company launched several new initiatives, including the ability to earn and redeem points both on *indigo.ca* and through Indigo's mobile app for members of its free plum rewards program.

Revenue from other sources includes revenue generated through cafés, irewards card sales, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed plum points ("plum breakage"), corporate sales, and revenue-sharing with Kobo. Revenue from other sources decreased $3.0 million or 10.6% to $25.4 million for the 53-week period ended April 2, 2016 compared to $28.4 million last year primarily as a result of lower Kobo revenue and lower irewards membership income. Kobo revenue share decreased by $0.8 million due to the slowing pace of eBook sales. irewards card sales have decreased by $0.7 million compared to last year. This decrease is consistent with the Company's expectations as members move to the free plum rewards program. On a normalized 52-week basis, total revenue from other sources was down 12.7% compared to the same period last year.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015	% increase (decrease)	Comparable store sales % increase (decrease)
Superstores	**695.3**	625.2	11.2	12.8
Small format stores	**140.2**	127.8	9.7	10.9
Online (including store kiosks)	**133.3**	114.0	16.9	N/A
Other	**25.4**	28.4	(10.6)	N/A
	994.2	895.4	11.0	12.5

Revenue by product line are as follows:

	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Print[1]	62.4%	65.2%
General merchandise[2]	34.1%	30.2%
eReading[3]	1.5%	2.0%
Other[4]	2.0%	2.6%
Total	100.0%	100.0%

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

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

	Superstores		Small format stores	
(millions of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Total revenue	695.3	625.2	140.2	127.8
Adjustments for stores not in both fiscal periods	(15.1)	(30.4)	(2.0)	(4.9)
Adjustments for week 53 revenue	(9.2)	–	(1.9)	–
Comparable store sales	671.0	594.8	136.3	122.9

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

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased $48.1 million to $551.2 million, compared to $503.1 million last year. The increase was driven by higher retail and online sales volumes, as discussed above. However, cost of sales as a percent of total revenue decreased by 0.8% to 55.4%, compared to 56.2% last year. Margin rate improvements were driven by greater sell-through of full-priced goods, more effective promotional discounting, higher vendor support and improved inventory management.

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

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased $13.3 million to $294.7 million this year, compared to $281.4 million last year. Store operating, online, and retail distribution costs all increased due to both higher volumes and the 53-week period in fiscal 2016, which resulted in an additional week of costs compared to last year. Store operating costs were $8.1 million higher, retail distribution costs were $2.7 million higher, and online costs were $2.5 million higher compared to the same period last year. However, as a percent of total revenue, cost of operations decreased by 1.8% to 29.6% this year, compared to 31.4% last year, driven by higher revenue in the current year and by the Company's continued focus on improving productivity.

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

Selling, administrative, and other expenses include marketing, head office costs, and operating expenses associated with the Company's transformation. These expenses increased $14.8 million to $105.2 million, compared to $90.4 million last year,

partly due to an additional $1.5 million of costs related to week 53 in the current fiscal year. Operating expenditures related to strategic projects increased by $2.8 million compared to last year as the Company continues to implement transformational projects across its retail locations and focus on productivity initiatives. Marketing costs increased by $2.4 million in the current year due to an increase in advertising campaigns. The $2.3 million increase in creative costs compared to last year was driven by the weaker Canadian dollar and an increase in our design and sourcing capabilities. Creative costs relate to the Company's product design team in New York and are primarily paid in U.S. dollars.

Other head office costs include a $3.3 million increase in payments for the Company's incentive plans and a $2.8 million increase in home office severance costs. These increases were partly offset by one-time proceeds of $4.5 million from the disposal of a store lease. The Company also had a foreign exchange gain of $0.6 million in fiscal 2016 compared to a foreign exchange gain of $0.8 million last year. As a percent of total revenue, selling, administrative, and other expenses increased by 0.6% to 10.7%, compared to 10.1% last year as a result of higher expenses in the current year.

Adjusted EBITDA Improved Compared to Last Year

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment increased $22.6 million to $43.1 million for the 53-week period ended April 2, 2016, compared to $20.5 million for the 52-week period ended March 28, 2015. Adjusted EBITDA as a percent of revenue increased to 4.3% this year from 2.3% last year. As discussed above, the improvement was driven by higher sales at improved margin rates and by lower operating ratios, partly offset by higher marketing, head office, strategic project, and creative costs.

Depreciation and Amortization Decreased while Impairment Reversals Increased Compared to Last Year

Depreciation and amortization for the 53-week period ended April 2, 2016 decreased by $2.9 million to $23.8 million compared to $26.7 million last year. The decrease in amortization was driven by below-average capital asset additions last year. Capital expenditures in fiscal 2016 totalled $29.2 million compared to $17.7 million last year. Capital expenditures increased compared to last year primarily due to the Company starting a number of new strategic initiatives in fiscal 2016 to position Indigo for future growth. Fiscal 2016 capital expenditures included $17.0 million for store construction, renovations and equipment, $9.0 million for intangible assets (primarily application software and internal development costs), and $3.2 million for technology equipment. None of the capital expenditures were financed through leases.

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

The Company had $1.6 million of net capital asset impairment reversals during fiscal 2016 compared to net capital asset impairment reversals of $0.5 million last year. Current year impairment losses arose due to a store closure while impairment losses last year arose due to stores performing at lower-than-expected profitability. Impairment reversals in both years were driven by improved store performance. All of the impairment losses and reversals were spread across a number of CGUs at the store level.

Net Interest Income Decreased Compared to Last Year

The Company recognized net interest income of $0.8 million this year compared to $1.8 million last year. The Company nets interest income against interest expense. Net interest income is $1.0 million lower than last year primarily due to interest and penalties paid to the government as the result of Canada Revenue Agency ("CRA") tax audits on prior year returns of the Company and Calendar Club. The Company is disputing $0.7 million of interest and penalties resulting from the audit findings and has filed a Notice of Objection with the government.

Earnings from Equity Investment Increased Compared to Last Year

The Company uses the equity method to account for its investment in Calendar Club and recognizes its share of Calendar Club's earnings and losses as part of consolidated net earnings and losses. The Company recognized net earnings from Calendar Club of $1.4 million this year compared to net earnings of $0.7 million last year due to improved business performance and well-positioned kiosk locations.

Income Tax Recovery in the Current Year

The Company recognized net income tax recovery of $6.5 million this year compared to net income tax expense of $0.3 million last year. Last year, the Company recorded income tax recovery of $0.5 million along with a $0.8 million increase in valuation allowance, for a total valuation allowance of $12.4 million. The valuation allowance recorded against deferred tax assets was determined based on management's best estimate of future taxable income that the Company expected to achieve. Based on the improved underlying performance of the business, the Company's forecast improved during fiscal 2016, which resulted in a full reversal of the Company's $12.4 million valuation allowance in the current year. This reversal was partially offset by the Company's $5.9 million income tax expense. The Company's effective tax rate was (29.3%) for the current year compared to (9.7%) last year due to the one-time impact of the valuation allowance reversal.

Net Earnings Improved Compared to Last Year

The Company recognized net earnings of $28.6 million for the 53-week period ended April 2, 2016 ($1.10 net earnings per common share), compared to a net loss of $3.5 million ($0.14 net loss per common share) last year. As discussed above, the improvement was driven by higher revenue at improved margin rates along with an income tax recovery.

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

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	Q4 Fiscal 2016	Q3 Fiscal 2016	Q2 Fiscal 2016	Q1 Fiscal 2016	Q4 Fiscal 2015	Q3 Fiscal 2015	Q2 Fiscal 2015	Q1 Fiscal 2015
Revenue	220.4	383.2	205.7	184.9	186.2	339.4	189.0	180.8
Total net earnings (loss)	(13.4)	52.8	(1.8)	(9.0)	(13.9)	33.0	(8.5)	(14.0)
Basic earnings (loss) per share	$(0.51)	$2.03	$(0.07)	$(0.35)	$(0.54)	$1.28	$(0.33)	$(0.55)
Diluted earnings (loss) per share	$(0.51)	$2.02	$(0.07)	$(0.35)	$(0.54)	$1.27	$(0.33)	$(0.55)

For the 14-week period ended April 2, 2016, total consolidated revenue increased by $34.2 million to $220.4 million compared to $186.2 million for the 13-week period ended March 28, 2015 last year, partly due to the additional week in the current fiscal year. Comparable store sales on a 52-week basis increased 14.7% in superstores and 15.8% in small format stores, driven by strong revenue growth from general merchandise and the trend for adult colouring books, along with more effective use of promotional discounting. Retail revenue increased by $30.2 million, or 19.8%, to $182.5 million compared to $152.3 million in the same quarter last year. Online revenue increased by $4.5 million, or 16.9%, to $31.1 million compared to $26.6 million in the same quarter last year.

Net loss in the fourth quarter of fiscal 2016 was $13.4 million compared to a loss of $13.9 million in the same period last year, a $0.5 million improvement. The improvement was driven by higher revenue at improved margin rates in the fourth quarter of fiscal 2016. The Company also recognized a $4.3 million income tax recovery in the fourth quarter of fiscal 2016 compared to a $3.5 million income tax recovery in the same period last year. These improvements were partially offset by a $10.2 million increase in head office costs in the fourth quarter of fiscal 2016 compared to the same period last year, driven by the inclusion of an additional week in the current fiscal year, higher bonus and severance payments, and the impact of foreign exchange. Foreign exchange loss in the current quarter was $1.9 million compared to a gain of $0.5 million in the same period last year.

Overview of Consolidated Balance Sheets

Total Assets

As at April 2, 2016, total assets increased $45.6 million to $584.0 million, compared to $538.4 million as at March 28, 2015. The increase was driven by increases in cash and cash equivalents, inventories, deferred tax assets, property, plant and equipment, and prepaid expenses. Cash and cash equivalents increased by $13.3 million, driven by cash flows from operating activities of $38.6 million resulting from improvements in both revenue and operating costs.

The inventories increase of $9.4 million was driven by the impact of foreign exchange due to a weaker Canadian dollar in fiscal 2016, along with higher general merchandise inventory due to higher sales. Deferred tax assets increased by $7.6 million as the previously discussed reversal of the Company's valuation allowance was partially offset by the use of deferred tax assets to reduce the Company's income tax payable. As previously discussed, the Company started a number of new strategic initiatives in fiscal 2016, which drove the $6.1 million increase in property, plant and equipment. Prepaid expenses increased by $5.8 million primarily as the result of having an additional week in the current fiscal year compared to last year.

The accounts receivable increase of $2.8 million was driven by a $3.6 million receivable from Calendar Club. The Company will be paying $3.6 million on behalf of Calendar Club related to the previously discussed CRA tax audit. As a result of the tax audit, Calendar Club will also receive a $3.6 million refund from the CRA which will be used to reimburse the Company.

Total Liabilities

As at April 2, 2016, total liabilities increased $12.8 million to $240.0 million, compared to $227.2 million as at March 28, 2015. The increase was primarily the result of an $11.1 million increase in current and long-term accounts payable and accrued liabilities. Higher accounts payable and accrued liabilities were driven by the additional week in the current fiscal year compared to last year. Bonus accruals, which were included as part of total accounts payable and accrued liabilities, were also $3.3 million higher than last year. The Company also recorded a $3.6 million payable to the CRA, as discussed above.

Total Equity

Total equity at April 2, 2016 increased $32.9 million to $344.0 million, compared to $311.1 million as at March 28, 2015. The increase in total equity was driven by net earnings of $28.6 million for the current year. Share capital increased by $3.4 million due to the exercise of stock options and Directors' deferred share units ("DSUs"). The $0.8 million increase in contributed surplus was driven by fewer employee stock option forfeitures in the current year.

Working Capital and Leverage

The Company reported working capital of $217.9 million as at April 2, 2016, compared to $198.7 million as at March 28, 2015. The increase was driven by the impact of higher total assets compared to last year, as discussed above. Notably, cash and cash equivalents increased by $13.3 million as the Company had higher sales in the current year compared to last year. The growth in total assets was partially offset by the $11.1 million increase in current and long-term accounts payable and accrued liabiltities.

The Company's leverage position (defined as Total Liabilities to Total Equity) remained consistent year-over-year at 0.7:1 as total liabilities and total equity increased at similar rates.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $13.3 million during fiscal 2016 compared to an increase of $45.6 million last year. The increase in fiscal 2016 was driven by cash flows generated from operating activities of $38.6 million, financing activities of $1.5 million, and the effect of foreign currency exchange rate changes on cash and cash equivalents of $0.3 million. This increase was partially offset by cash used for investing activities of $27.0 million.

Cash Flows from Operating Activities

The Company generated cash flows of $38.6 million from operating activities in fiscal 2016 compared to generating $57.8 million last year, a decrease of $19.2 million. The Company used $5.1 million of cash for working capital this year compared to generating $37.8 million of cash from working capital last year and had higher income tax expenses in the current year, which used $7.6 million of deferred tax assets compared to generating $0.4 million of deferred tax assets last year. These uses of cash were partly offset by the improvement in net earnings, as the Company generated net earnings of $28.6 million in the current year compared to a net loss of $3.5 million last year.

Cash Flows Used for Investing Activities

The Company used cash flows of $27.0 million for investing activities in fiscal 2016 compared to $15.3 million used for investing activities last year, an increase of $11.7 million. Driven by the successes of its transformational strategy, the Company continues to implement changes across its retail stores and is working on a number of back-end productivity initiatives. Notably, the Company is in the process of implementing a new product information management system that is expected to launch in fiscal 2017. The Company also received $1.5 million of interest in the current year compared to $1.9 million last year. Distributions from the equity investment in Calendar Club were $0.7 million in the current year compared to $0.5 million last year.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Store construction, renovations, and equipment	17.0	8.2
Intangible assets (primarily application software and internal development costs)	9.0	6.9
Technology equipment	3.2	2.6
	29.2	17.7

Cash Flows from Financing Activities

The Company generated cash flows of $1.5 million from financing activities in fiscal 2016 compared to generating $1.1 million last year, an increase of $0.4 million. Option exercises generated $0.9 million more in the current year compared to last year, and finance lease payments were lower by $0.4 million as the Company had fewer finance leases in the current year. The Company has not entered into any new finance lease agreements in fiscal 2016, so the amount of cash required to service debt requirements is expected to decline over the next several periods. Cash generated was partially offset by interest paid to the CRA of $0.9 million, as previously discussed.

Liquidity and Capital Resources

The Company has a highly seasonal business that generates the majority of its revenue and cash flows during the December holiday season. The Company has minimal accounts receivable and a significant portion of book products are purchased on trade terms with the right to return. The Company's main sources of capital are cash flows generated from operations and cash and cash equivalents.

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
Operating leases	54.2	76.2	23.5	18.3	172.2
Finance lease obligations	0.1	–	–	–	0.1
Total obligations	54.3	76.2	23.5	18.3	172.3

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position and cash flows generated from operations to be sufficient to meet its working capital needs and debt service requirements for fiscal 2017. In addition, the Company has the ability to reduce capital spending to fund debt requirements if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

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

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of the Company'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 in conformity with IFRS 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 that 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 judgments

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. Impairment losses are 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 uses judgment when identifying CGUs and when assessing for indicators of impairment or reversal.

Intangible assets

Initial capitalization of intangible asset costs is based on the Company's judgment that technological and economic 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 management's best estimate of future taxable income that the Company expects to achieve from reviewing its latest forecast. This estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. Any difference between the gross deferred tax asset and the amount recognized is recorded on the balance sheet as a valuation allowance. If the valuation allowance decreases as a result of subsequent events, the previously recognized valuation allowance will be reversed. 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.

Revenue

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 (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity.

Inventories

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. At each balance sheet date, the Company reviews its on-hand inventory and uses historical trends and current inventory mix to determine a reserve for the impact of future markdowns that will take the net realizable value of inventory on-hand below cost. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and

fiscal year end based on historical experience as a percentage of sales. 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 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 historical experience and expected future 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.

Accounting Standards Implemented in Fiscal 2016

There were no new accounting standards implemented in the year which had an impact on the Company's results of operations, financial position, or disclosures.

New Accounting Pronouncements

Presentation of Financial Statements ("IAS 1")

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

Statement of Cash Flows ("IAS 7")

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

Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a new standard that specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Application of IFRS 15 is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments, and insurance contracts. IFRS 15 must be applied for reporting periods beginning on or after January 1, 2018 and early adoption is permitted. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement," and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the impact of the new standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, "Leases." IFRS 16 requires all leases to be reported on a company's balance sheet and will provide greater transparency on companies' leased assets and liabilities. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided the Company has also adopted IFRS 15. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2019.

Risks and Uncertainties

The Company is exposed to a variety of risk factors and has identified the principal risks inherent in its business. The relative severity of these principal risks is impacted by the external environment and the Company's business strategies and, therefore, will vary from time to time.

The Company cautions that the following discussion of risk factors that may affect future results is not exhaustive. The Company's performance may also be affected by other specific risks that may be highlighted from time to time in other public filings of the Company available on the Canadian securities regulatory authorities' website at *sedar.com*. When relying upon forward-looking information to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties, assumptions, potential events, industry, and Company-specific factors that may adversely affect future results. The Company assumes no obligation to update or revise previously filed public documents to reflect new events or circumstances, except as required by law.

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, higher labour costs, increases in shipping rates or interruptions in shipping service, foreign exchange fluctuations, or higher interest rates or unemployment rates, could also unfavourably impact the Company's financial performance.

The Company leases all of its retail locations and 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 closings or relocations, could unfavourably impact the Company's performance.

Competition

The retail industry is highly competitive and continues to experience fundamental changes in a rapidly changing environment.

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. The number of retailers selling eBooks and eReaders has also increased. Furthermore, technology continues to evolve and eReader technology is now widely available on tablets and mobile devices. This increased competition may negatively impact the Company's revenues and margins.

The general merchandise retail landscape also contains a significant amount of competition from established retailers and there can be no assurances that the Company will be able to gain market share. The Company competes with local, regional, national, and international retailers that sell gift and specialty toy products through both physical and digital platforms. New competitors frequently enter the market and existing competitors may increase market presence, expand merchandise offerings, add new sales channels, or change their pricing methods, all of which increase competition for customers. If the Company is unable to gain market share, Indigo's revenue could be adversely affected.

Aggressive merchandising or discounting by competitors could also reduce the Company's revenue, market share, and operating margins.

Strategic Initiatives

The retail industry is constantly changing and management is committed to the Company's continued growth and success. Expansion into new markets or the launch of new initiatives could place a significant strain on the Company's management, operations, technical performance, financial resources, and internal financial control and reporting functions. The Company will continue to change and modify its strategy based on its economic environment and there can be no assurances that Indigo's strategy will be successful.

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, or the absence of key suppliers, may affect the Company's ability to compete in the marketplace. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions of imports, changes in restrictions, or currency fluctuations could negatively impact the Company's revenues and margins.

The Company is also reliant on third-party providers to provide services essential to daily operations. Any disruption to these services could have a significant negative impact in areas such as supply chain logistics, software development and support, transaction processing, and other key processes. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions, or business relationships to mitigate the impact of disruptive events. Disruptions to third-party services could have an unfavourable impact on the Company's performance and reputation.

Inventory Management

The Company must manage its inventory levels to successfully operate the business. Inability to respond to changing customer preferences may result in excess inventory that must be sold at lower prices or an inventory shortage. Additionally, as a result of purchasing more general merchandise, the Company has an increasing amount of non-returnable inventory. The Company monitors the impact of customer trends on inventory turnover and obsolescence, but inappropriate inventory levels could negatively impact the Company's revenue and financial performance.

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. As part of its growth in general merchandise, the Company also sells food products and is subject to risks associated with food safety.

These risks could result in harm to the Company's customers and expose Indigo to product liability claims, damage the Company's reputation, and lead to product recalls. Liabilities and costs related to product quality and product safety may also have a negative impact on the Company's revenue and financial performance.

The Company has policies and controls in place to manage these risks, including maintaining liability insurance and providing third party manufacturers with product safety guidance.

Technology and Digital Platforms

Information management and technology are key components to the ongoing competitiveness and daily operation of the business. If the Company's investment in technology fails to support growth initiatives or keep pace with technological changes, Indigo's competitiveness may be compromised. The Company also continues to invest in the digital customer experience, but there can be no assurance that Indigo will be able to recoup its investment costs. Furthermore, 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 are pervasive throughout the Company and failures in their maintenance or development could have a significant adverse effect on the business.

Cybersecurity

A failure in, or breach of, the Company's IT operational or security systems or infrastructure, or those of Indigo's third party vendors and other service providers, including as a result of cyberattacks, could disrupt the business, result in the disclosure or misuse of confidential or proprietary information, damage Indigo's reputation, increase the Company's costs, and cause losses. Although Indigo has business continuity plans and other safeguards in place, along with robust information security procedures and controls, the Company's business operations may be adversely affected by significant and widespread disruption to Indigo's physical IT infrastructure or operating systems that support the Company's business and customers. As cyber threats continue to evolve, the Company may be required to expend significant additional resources to continue to modify or enhance Indigo's protective measures, or to investigate and remediate any information security vulnerabilities.

Disaster Recovery and Business Continuity

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 operations and financial performance. Moreover, if such events were to occur at peak times in the Company's business cycle, the impact of these events on operating performance could be significantly greater than they would otherwise have been. The Company has procedures in place to reduce the impact of business interruptions, crises, and potential disasters, but there can be no assurance that these procedures can fully eliminate the negative impact of such events.

Dependence on Key Personnel

The Company's continued success will depend to a significant extent upon its management group, which has developed specialized skills and an in-depth knowledge of the business. The loss of the services of key personnel, particularly Ms. Reisman, could have a material adverse effect on the Company. To mitigate the risk of personnel loss, the Company has implemented a number of employee engagement and retention strategies.

Credit, Foreign Exchange, and Interest Rate Risks

The Company's maximum exposure to credit risk at April 2, 2016, 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 is largely limited to currency fluctuations between the Canadian and U.S. dollars. 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 Indigo's customers is set in Canadian dollars. The Company also has a New York office that incurs U.S. dollar expenses. Historically, the Company has purchased U.S. dollars at the spot rate in order to fund inventory purchases. However, given the recent volatility of the Canadian dollar and the increasing volume of the Company's U.S. dollar purchases, a formal hedging policy was implemented subsequent to year end, at the beginning of fiscal 2017, to mitigate foreign exchange risk.

The Company's interest rate risk is limited to its long-term debt (finance leases), for which interest rates are fixed at the time a contract is finalized. The Company's interest income is also sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk.

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 April 2, 2016 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Regulatory Environment

The Company's operations and activities are regulated by a number of laws and regulations. Changes to statutes, laws, regulations or regulatory policies, or changes in their interpretation, implementation or enforcement, could adversely affect the Company's operations and performance, and the Company may also incur significant costs in the course of complying with any such changes. 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.

Compliance with Privacy Laws

A number of federal and provincial statutes govern the privacy rights of the Company's employees and customers. These Canadian privacy laws create certain obligations regarding the Company's handling of 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 and processes 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.

Workplace Health and Safety

The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could result in employee injuries, productivity loss, and liabilities to the Company. To reduce the risk of workplace incidents, the Company has health and safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements.

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 April 2, 2016.

Internal Controls over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to consolidated financial statement preparation and presentation. Additionally, management is necessarily required to use judgment in evaluating controls and procedures.

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings," the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such internal controls over financial reporting using the framework established in the Internal Control – Integrated Framework ("COSO Framework") published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. 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 April 2, 2016.

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 December 27, 2015 and ended on April 2, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

The above discussion includes forward-looking statements. All statements other than statements of historical facts included in this discussion that address activities, events, or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analysis made by the Company in light of its experience, analysis, and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform to the expectations and predictions of the Company is subject to a number of risks and uncertainties, including the general economic, market, or business conditions; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this discussion are qualified by these cautionary statements and there can be no assurance

that results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

Non-IFRS Financial Measures

The Company prepares its consolidated financial statements in accordance with 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 adjusted EBITDA, in the discussion and analysis section above. These measures are specific to Indigo and have no standardized meaning prescribed by IFRS. Therefore, these measures may not be comparable to similar measures presented by other companies.

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

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

(millions of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Adjusted EBITDA	43.1	20.5
Depreciation of property, plant, and equipment	(14.7)	(14.8)
Amortization of intangible assets	(9.1)	(11.9)
Net reversal of capital asset impairments	1.6	0.5
Loss on disposal of capital assets	(1.0)	–
Interest expense	(1.0)	(0.1)
Interest income	1.8	1.9
Share of earnings from equity investment	1.4	0.7
Earnings (loss) before income taxes	22.1	(3.2)

The Company has also provided non-GAAP normalized revenue data to remove the effect of having a 53-week fiscal year in 2016 compared to the 52-week fiscal year ended March 28, 2015. Normalized revenue was calculated by excluding fiscal 2016 week 53 revenue.

A reconciliation between full year fiscal 2016 revenue (the most comparable IFRS measure) and normalized fiscal 2016 revenue is provided below:

(millions of Canadian dollars)	Fiscal 2016 revenue (full year)	Fiscal 2016 revenue (week 53)	Fiscal 2016 revenue (normalized)	Fiscal 2015 revenue
Superstores	695.3	9.2	686.1	625.2
Small format stores	140.2	1.9	138.3	127.8
Online (including store kiosks)	133.3	1.9	131.4	114.0
Other	25.4	0.6	24.8	28.4
	994.2	13.6	980.6	895.4

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 April 2, 2016 and March 28, 2015, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity, and cash flows for the 53-week period ended April 2, 2016 and the 52-week period ended March 28, 2015, 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 April 2, 2016 and March 28, 2015, and its financial performance and its cash flows for the 53-week period ended April 2, 2016 and for the 52-week period ended March 28, 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 31, 2016

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at April 2, 2016	As at March 28, 2015
ASSETS		
Current		
Cash and cash equivalents (notes 6 and 19)	216,488	203,162
Accounts receivable	7,663	4,896
Inventories (note 7)	217,788	208,395
Income taxes recoverable	25	25
Prepaid expenses	11,290	5,477
Total current assets	453,254	421,955
Property, plant, and equipment (note 8)	60,973	54,886
Intangible assets (note 9)	16,506	16,587
Equity investment (note 20)	1,421	726
Deferred tax assets (note 10)	51,836	44,241
Total assets	583,990	538,395
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 19)	171,112	160,645
Unredeemed gift card liability	50,969	48,211
Provisions (note 11)	34	913
Deferred revenue	13,232	13,298
Current portion of long-term debt (notes 12 and 18)	53	172
Total current liabilities	235,400	223,239
Long-term accrued liabilities	4,483	3,841
Long-term provisions (note 11)	109	110
Long-term debt (note 18)	–	56
Total liabilities	239,992	227,246
Equity		
Share capital (note 13)	209,318	205,871
Contributed surplus (note 14)	10,591	9,770
Retained earnings	124,089	95,508
Total equity	343,998	311,149
Total liabilities and equity	583,990	538,395

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)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Revenue (note 15)	**994,181**	895,376
Cost of sales	**(551,194)**	(503,059)
Gross profit	**442,987**	392,317
Operating, selling, and administrative expenses (notes 8, 9 and 15)	**(423,037)**	(398,031)
Operating profit (loss)	**19,950**	(5,714)
Interest expense	**(1,000)**	(69)
Interest income	**1,753**	1,906
Share of earnings from equity investment (note 20)	**1,397**	655
Earnings (loss) before income taxes	**22,100**	(3,222)
Income tax recovery (expense) (note 10)		
Current	**50**	51
Deferred	**6,431**	(363)
Net earnings (loss) and comprehensive earnings (loss) for the period	**28,581**	(3,534)
Net earnings (loss) per common share (note 16)		
Basic	**$1.10**	$(0.14)
Diluted	**$1.09**	$(0.14)

See accompanying notes

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance, March 29, 2014	203,812	8,820	99,042	311,674
Net loss for the 52-week period ended March 28, 2015	–	–	(3,534)	(3,534)
Exercise of options (notes 13 and 14)	2,059	(301)	–	1,758
Share-based compensation (notes 14 and 15)	–	910	–	910
Directors' compensation (note 14)	–	341	–	341
Balance, March 28, 2015	205,871	9,770	95,508	311,149
Balance, March 28, 2015	**205,871**	**9,770**	**95,508**	**311,149**
Net loss for the 53-week period ended April 2, 2016	**–**	**–**	**28,581**	**28,581**
Exercise of options (notes 13 and 14)	**3,156**	**(484)**	**–**	**2,672**
Directors' deferred stock units converted (note 14)	**291**	**(291)**	**–**	**–**
Share-based compensation (notes 14 and 15)	**–**	**1,212**	**–**	**1,212**
Directors' compensation (note 14)	**–**	**384**	**–**	**384**
Balance, April 2, 2016	**209,318**	**10,591**	**124,089**	**343,998**

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss) for the period	**28,581**	(3,534)
Add (deduct) items not affecting cash		
Depreciation of property, plant, and equipment (note 8)	**14,739**	14,789
Amortization of intangible assets (note 9)	**9,073**	11,913
Net reversal of capital asset impairments (note 8)	**(1,620)**	(458)
Loss on disposal of capital assets (notes 8 and 9)	**1,039**	92
Share-based compensation (note 14)	**1,212**	910
Directors' compensation (note 14)	**384**	341
Deferred tax assets (note 10)	**(7,595)**	363
Other	**(58)**	(1,960)
Net change in non-cash working capital balances (note 17)	**(5,102)**	37,841
Interest expense	**1,000**	69
Interest income	**(1,753)**	(1,906)
Income taxes received	**50**	26
Share of earnings from equity investment (note 20)	**(1,397)**	(655)
Cash flows from operating activities	**38,553**	57,831
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment (note 8)	**(20,243)**	(10,832)
Addition of intangible assets (note 9)	**(9,000)**	(6,914)
Proceeds from disposal of capital assets	**6**	–
Distributions from equity investment (note 20)	**702**	527
Interest received	**1,522**	1,898
Cash flows used for investing activities	**(27,013)**	(15,321)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	**(175)**	(586)
Interest paid	**(995)**	(67)
Proceeds from share issuances (note 13)	**2,672**	1,758
Cash flows from financing activities	**1,502**	1,105
Effect of foreign currency exchange rate changes on cash and cash equivalents	**284**	1,969
Net increase in cash and cash equivalents during the period	**13,326**	45,584
Cash and cash equivalents, beginning of period	**203,162**	157,578
Cash and cash equivalents, end of period	**216,488**	203,162

See accompanying notes

Notes to Consolidated Financial Statements

April 2, 2016

1. CORPORATE INFORMATION

Indigo Books & Music Inc. (the "Company" or "Indigo") is a corporation domiciled and incorporated under the laws of the Province of Ontario in Canada. The Company's registered office is located at 468 King Street West, Toronto, Ontario, M5V 1L8, Canada. The consolidated financial statements of the Company comprise the Company, its equity investment in Calendar Club of Canada Limited Partnership ("Calendar Club"), and its wholly-owned subsidiary, Soho Inc. 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 ten provinces and one territory in Canada, including 88 superstores (2015 – 91) under the *Indigo* and *Chapters* names, as well as 123 small format stores (2015 – 127) under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*. In addition, online sales are generated through the *indigo.ca* website and the Company's mobile applications. These digital platforms sell an expanded selection of books, gifts, toys, and paper products. The Company also operates seasonal kiosks and year-round stores in shopping malls across Canada through Calendar Club.

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.

The Company also has a separate registered charity, the Indigo Love of Reading Foundation (the "Foundation"). The Foundation provides new books and learning material to high-needs elementary schools across the country through donations from Indigo, its customers, 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") and using the accounting policies described herein.

These consolidated financial statements were approved by the Company's Board of Directors on May 31, 2016.

Fiscal Year

The fiscal year of the Company ends on the Saturday closest to March 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The year ended April 2, 2016 contained 53 weeks, while the year ended March 28, 2015 contained 52 weeks. The next 53-week period will occur in fiscal 2021.

Use of Judgments

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. Impairment losses are 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 uses judgment when identifying CGUs and when assessing for indicators of impairment or reversal.

Intangible assets

Initial capitalization of intangible asset costs is based on the Company's judgment that technological and economic 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 management's best estimate of future taxable income that the Company expects to achieve from reviewing its latest forecast. This estimate is adjusted for significant non-taxable income and expenses and for specific limits to the use of any unused tax loss or credit. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. Any difference between the gross deferred tax asset and the amount recognized is recorded on the balance sheet as a valuation allowance. If the valuation allowance decreases as a result of subsequent events, the previously recognized valuation allowance will be reversed. 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.

Revenue

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 (redemption at each reward level), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity.

Inventories

The future realization of the carrying amount of inventory is affected by future sales demand, inventory levels, and product quality. At each balance sheet date, the Company reviews its on-hand inventory and uses historical trends and current inventory mix to determine a reserve for the impact of future markdowns that will take the net realizable value of inventory on-hand below cost. Inventory valuation also incorporates a write-down to reflect future losses on the disposition of obsolete merchandise. The Company reduces inventory for estimated shrinkage that has occurred between physical inventory counts and fiscal year end based on historical experience as a percentage of sales. 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 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 historical experience and expected future 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. Control exists when the Company is exposed to, or has the right to, variable returns from its involvement with the controlled entity and when the Company has the current ability to affect those returns through its power over the controlled entity. 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. Once control ceases, the Company will reassess the relationship with the former subsidiary and revise Indigo's accounting policy based on the Company's remaining percentage of ownership. All intercompany balances and transactions and any unrealized gains and losses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Equity Investment

The equity method of accounting is applied to investments in companies where Indigo has the ability to exert significant influence over the financial and operating policy decisions of the company but lacks control or joint control over those policies. Under the equity method, the Company's investment is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the investment, and for impairment losses after the initial recognition date. The Company's share of losses that are in excess of its investment is recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the company. The Company's share of earnings and losses of its equity investment are recognized through profit or loss during the period. Cash distributions received from the investment are accounted for as a reduction in the carrying amount of the Company's equity investment.

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 equivalents of fixed deposits or similar instruments with an original term of longer than three months are also included in this category if they are readily convertible to a known amount of cash throughout their term and are subject to an insignificant risk of change in value assessed against the amount at inception. 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 taxes are the expected taxes payable or receivable on the taxable earnings or loss for the period. Current income taxes are payable on taxable earnings for the period as calculated under Canadian taxation guidelines, which differs from taxable earnings under IFRS. Calculation of current income taxes is based on tax rates and tax laws that have been enacted, or substantively enacted, by the end of the reporting period. Current income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

Deferred income taxes are 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 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 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.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. Any difference between the gross deferred tax asset and the amount recognized is recorded on the consolidated balance sheets as a valuation allowance. If the valuation allowance decreases as the result of subsequent events, the previously recognized valuation allowance will be reversed.

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 assets are 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 nil 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 leases	3 – 5 years
Leasehold improvements	over the shorter of useful life and lease term plus expected renewals, 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 minimum 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 that 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 April 2, 2016, computer equipment assets are the only type of assets 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.

The Company performs quarterly assessments of contracts that do not take the legal form of a lease to determine whether they convey the right to use an asset in return for a payment or series of payments and therefore need to be accounted for as leases. As at April 2, 2016, the Company had no such contracts.

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 certain ("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, with the unamortized portion recorded in current and long-term accounts payable and accrued liabilities. As at April 2, 2016, all of the Company's leases on premises were accounted for as operating leases. Expenses incurred for leased premises include base rent, taxes, common area maintenance, 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 indefinite 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
Domain name	Indefinite useful life – not amortized

There are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the domain name to the Company. Therefore, useful life of the domain name is deemed to be indefinite.

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.

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 that 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 corporate level is used as the group of CGUs. Capital assets and related CGUs or groups of CGUs are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events or changes in circumstances that may indicate impairment include a significant change to the Company's operations, a significant decline in performance, or a change in market conditions that 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 uses a value-in-use calculation to determine the present value of the expected future cash flows from each CGU or group of CGUs based on the CGU'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.

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 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 measurable 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 occur 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 a 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 flows. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money. Examples of provisions include decommissioning liabilities, onerous leases, and legal claims.

Borrowing Costs

Borrowing costs are primarily composed of interest on the Company's long-term debt. Borrowing costs are capitalized using the effective interest rate method 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.

Total Equity

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 the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model is based on variables such as: risk-free interest rate; expected volatility; expected time until exercise; and expected dividend yield. Expected stock price volatility is based on the historical volatility of the Company's stock for a period approximating the expected life. 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.

Revenue Recognition

The Company recognizes revenue when the substantial risks and rewards of ownership pass to the customer. Revenue is measured at the fair value of the 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 revenue 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 on indigo.ca. Members can then redeem points for discounts on future purchases of merchandise in stores and online.

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 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), historical redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed, adjusting the estimated cost per point based upon expected future activity. Points revenue is included as part of total revenue 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 a reimbursement of incremental selling costs incurred by the Company, in which case the cash received is reflected as a reduction in operating and administrative expenses.

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 is calculated in accordance with the treasury stock method and is 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-term 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 value 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 Other Comprehensive Income 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 Accumulated Other Comprehensive Income 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

All other balance sheet accounts are not considered financial instruments.

All financial instruments measured at fair value after initial recognition are categorized into one of three hierarchy levels for measurement and 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 April 2, 2016, 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 are 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 that 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.

Accounting Standards Implemented in Fiscal 2016

There were no new accounting standards implemented in the year which had an impact on the Company's results of operations, financial position, or disclosures.

5. NEW ACCOUNTING PRONOUNCEMENTS

Presentation of Financial Statements ("IAS 1")

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

Statement of Cash Flows ("IAS 7")

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

Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, a new standard that specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations. Application of IFRS 15 is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments, and insurance contracts. IFRS 15 must be applied for reporting periods beginning on or after January 1, 2018 and early adoption is permitted. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Financial Instruments ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, "Financial Instruments: Recognition and Measurement," and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is assessing the impact of the new standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2018.

Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which supersedes existing standards and interpretations under IAS 17, "Leases." IFRS 16 requires all leases to be reported on a company's balance sheet and will provide greater transparency on companies' leased assets and liabilities. The new standard will apply for annual periods beginning on or after January 1, 2019. Earlier application is permitted provided the Company has also adopted IFRS 15. The Company is assessing the impact of adopting this standard on its results of operations, financial position, and disclosures. The Company plans to apply this standard for reporting periods beginning on or after January 1, 2019.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	April 2, 2016	March 28, 2015
Cash	102,862	139,658
Restricted cash	3,460	3,138
Cash equivalents	110,166	60,366
Cash and cash equivalents	216,488	203,162

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

7. INVENTORIES

The cost of inventories recognized as an expense was $561.5 million in fiscal 2016 (2015 – $507.4 million). Inventories consist of the landed cost of goods sold and exclude online shipping costs, inventory shrink and damage reserve, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost was $10.1 million in fiscal 2016 (2015 – $9.4 million), and there were no reversals of inventory write-downs that were recognized in fiscal 2016 (2015 – nil). The amount of inventory with net realizable value equal to cost was $1.5 million as at April 2, 2016 (March 28, 2015 – $1.8 million).

8. PROPERTY, PLANT AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Equipment under finance leases	Total
Gross carrying amount					
Balance, March 29, 2014	62,118	11,080	54,329	2,824	130,351
Additions	4,461	2,647	3,724	–	10,832
Transfers/reclassifications	–	(340)	340	–	–
Disposals	(373)	(23)	(388)	(2,057)	(2,841)
Assets with zero net book value	(1,599)	(1,622)	(6,735)	–	(9,956)
Balance, March 28, 2015	64,607	11,742	51,270	767	128,386
Additions	**8,611**	**3,207**	**8,390**	**–**	**20,208**
Transfers/reclassifications	**1**	**(467)**	**501**	**–**	**35**
Disposals	**(2,127)**	**(102)**	**(372)**	**(166)**	**(2,767)**
Assets with zero net book value	**(2,952)**	**(2,253)**	**(5,818)**	**–**	**(11,023)**
Balance, April 2, 2016	**68,140**	**12,127**	**53,971**	**601**	**134,839**
Accumulated depreciation and impairment					
Balance, March 29, 2014	29,412	5,029	35,407	2,027	71,875
Depreciation	5,815	2,214	6,193	567	14,789
Transfers/reclassifications	–	–	–	–	–
Disposals	(324)	(11)	(358)	(2,057)	(2,750)
Net impairment losses (reversals)	31	28	(517)	–	(458)
Assets with zero net book value	(1,599)	(1,622)	(6,735)	–	(9,956)
Balance, March 28, 2015	33,335	5,638	33,990	537	73,500
Depreciation	**6,134**	**2,347**	**6,092**	**166**	**14,739**
Transfers/reclassifications	**–**	**(5)**	**5**	**–**	**–**
Disposals	**(1,265)**	**(29)**	**(270)**	**(166)**	**(1,730)**
Net impairment losses (reversals)	**(459)**	**(5)**	**(1,156)**	**–**	**(1,620)**
Assets with zero net book value	**(2,952)**	**(2,253)**	**(5,818)**	**–**	**(11,023)**
Balance, April 2, 2016	**34,793**	**5,693**	**32,843**	**537**	**73,866**
Net carrying amount					
March 28, 2015	31,272	6,104	17,280	230	54,886
April 2, 2016	**33,347**	**6,434**	**21,128**	**64**	**60,973**

Capital assets are assessed for impairment at the CGU level, except for those capital assets that are considered to be corporate assets. As certain corporate assets cannot be allocated on a reasonable and consistent basis to individual CGUs, they are tested for impairment at the corporate level.

A CGU has been defined as an individual retail store, as each store generates cash inflows that are largely independent from the cash inflows 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. For stores that are at risk of closure, cash flows are projected over the remaining lease terms, including any renewal options if renewal is likely. Cash flows for stores expected to operate beyond the current lease term and renewal options are projected using a terminal value calculation. Corporate asset testing calculates discounted cash flow projections over a five-year period plus a terminal value.

The key assumptions from the value-in-use calculations are those regarding growth rates and discount rates. Cash flow projections for the next three fiscal years are calculated separately for each CGU being tested and are based on manaagement's best estimate of future income. Following these three fiscal years, projections are extrapolated using average long-term growth rates ranging from 0.0% to 3.0% (2015 – 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 for store assets was 19.7% (2015 – 19.0%).

Impairment and reversal indicators were identified during fiscal 2016 for certain retail stores. Accordingly, the Company performed testing, which resulted in the recognition and reversal of impairment losses for Indigo's retail stores. Impairment losses recognized were $0.6 million in fiscal 2016 (2015 – $2.0 million) and arose due to a store closure as asset carrying amounts exceeded recoverable amounts. There were $2.3 million of capital asset impairment reversals recognized in fiscal 2016 (2015 – $2.4 million). Impairment reversals arose due to improved store performance and were spread across a number of CGUs. The recoverable amount of the CGUs impacted by impairments or reversals was $16.3 million (2015 – $10.0 million) and was determined using each CGU's value in use.

9. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Total
Gross carrying amount				
Balance, March 29, 2014	27,281	13,146	–	40,427
Additions	2,932	3,982	–	6,914
Transfers/reclassifications	–	–	–	–
Disposals	(1)	–	–	(1)
Assets with zero net book value	(4,461)	(2,447)	–	(6,908)
Balance, March 28, 2015	25,751	14,681	–	40,432
Additions	**4,678**	**4,282**	**75**	**9,035**
Transfers/reclassifications	**(35)**	**–**	**–**	**(35)**
Disposals	**(16)**	**–**	**–**	**(16)**
Assets with zero net book value	**(12,561)**	**(5,543)**	**–**	**(18,104)**
Balance, April 2, 2016	**17,817**	**13,420**	**75**	**31,312**
Accumulated amortization and impairment				
Balance, March 29, 2014	12,793	6,047	–	18,840
Amortization	7,608	4,305	–	11,913
Disposals	–	–	–	–
Assets with zero net book value	(4,461)	(2,447)	–	(6,908)
Balance, March 28, 2015	15,940	7,905	–	23,845
Amortization	**5,149**	**3,924**	**–**	**9,073**
Disposals	**(8)**	**–**	**–**	**(8)**
Assets with zero net book value	**(12,561)**	**(5,543)**	**–**	**(18,104)**
Balance, April 2, 2016	**8,520**	**6,286**	**–**	**14,806**
Net carrying amount				
March 28, 2015	9,811	6,776	–	16,587
April 2, 2016	**9,297**	**7,134**	**75**	**16,506**

The useful life of the domain name has been deemed to be indefinite because there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this asset to the Company.

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 and reversal indicators were identified during fiscal 2016 for Indigo's retail stores. Accordingly, the Company performed impairment and reversal testing but there were no intangible asset impairment losses or reversals in fiscal 2016 (2015 – no impairment losses or reversals).

10. INCOME TAXES

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits and unused tax losses can be utilized. As at April 2, 2016, the Company has recorded $51.8 million in gross value of deferred tax assets based on management's best estimate of future taxable income that the Company expected to achieve (March 28, 2015 – $56.7 million gross value of deferred tax assets and valuation allowance of $12.4 million). The previously recognized valuation allowance was reversed during fiscal 2016 due to improvements in the Company's latest forecast.

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)	April 2, 2016	March 28, 2015
Deferred tax assets		
Reserves and allowances	1,938	2,011
Tax loss carryforwards	23,597	23,317
Corporate minimum tax	2,511	1,347
Book amortization in excess of cumulative eligible capital deduction	217	231
Book amortization in excess of capital cost allowance	23,573	29,767
Deferred tax assets before valuation allowance	51,836	56,673
Valuation allowance	–	(12,432)
Net deferred tax assets	51,836	44,241

Significant components of income tax expense (recovery) are as follows:

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Current income tax recovery		
Adjustment for prior periods	(50)	(51)
	(50)	(51)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	6,586	(489)
Change in valuation allowance	(12,432)	837
Adjustment to deferred tax assets resulting from increase in substantively enacted tax rate	(451)	–
Change in tax rates due to change in expected pattern of reversal	(134)	16
Other, net	–	(1)
	(6,431)	363
Total income tax expense (recovery)	(6,481)	312

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

(thousands of Canadian dollars)	53-week period ended April 2, 2016	%	52-week period ended March 28, 2015	%
Earnings (loss) before income taxes	22,100		(3,222)	
Tax at combined federal and provincial tax rates	5,885	26.6%	(852)	26.4%
Tax effect of expenses not deductible for income tax purposes	793	3.6%	447	(13.9%)
Increase (decrease) in valuation allowance	(12,432)	(56.3%)	837	(26.0%)
Adjustment to deferred tax assets resulting from increase in substantively enacted tax rate	(451)	(2.0%)	–	0.0%
Change in tax rates due to change in expected pattern of reversal	(134)	(0.6%)	16	(0.5%)
Other, net	(142)	(0.6%)	(136)	4.2%
	(6,481)	(29.3%)	312	(9.7%)

As at April 2, 2016, the Company has combined non-capital loss carryforwards of approximately $88.2 million for income tax purposes that expire in 2031 if not utilized.

11. 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)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Balance, beginning of period	1,023	1,092
Charged	33	183
Utilized / released	(913)	(252)
Balance, end of period	143	1,023

The Company is subject to payment of decommissioning liabilities upon exiting certain leases. The amount of these payments may fluctuate based on negotiations with the landlord. Onerous lease provisions unwind over the term of the related lease and were discounted using a pre-tax discount rate of 19.0%. Legal claim provisions will fluctuate depending on the outcomes when claims are settled.

12. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at April 2, 2016, 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 calendar 2016 and 2026, 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. The Company also generates sublease income in respect of some of its premises leases. Over the next five fiscal years and thereafter, the Company expects to generate $8.7 million from these subleases.

(ii) Finance lease obligations

In previous years, the Company entered into finance lease agreements for certain equipment. The obligations under these finance leases were $0.1 million as at April 2, 2016, all included in the current portion of long-term debt (March 28, 2015 – $0.2 million).

The Company's minimum contractual obligations due over the next five fiscal years and thereafter are summarized below. Operating lease expenditures are presented net of their related subleases:

(millions of Canadian dollars)	Operating leases	Finance leases	Total
2017	54.2	0.1	54.3
2018	44.8	–	44.8
2019	31.4	–	31.4
2020	16.0	–	16.0
2021	7.5	–	7.5
Thereafter	18.3	–	18.3
Total obligations	172.2	0.1	172.3

(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 April 2, 2016 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 that have been recorded as provisions on the Company's consolidated balance sheets.

13. 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

	53-week period ended April 2, 2016		52-week period ended March 28, 2015	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	25,495,289	205,871	25,298,239	203,812
Issued during the period				
Directors' deferred share units converted	29,142	291	–	–
Options exercised	272,920	3,156	197,050	2,059
Balance, end of period	25,797,351	209,318	25,495,289	205,871

During the 53-week period ended April 2, 2016, the Company issued 29,142 common shares (2015 – nil) in exchange for Directors' deferred share units.

14. 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 as at April 2, 2016 is 3,369,603. Most options granted between May 21, 2002 and March 31, 2012 have a ten-year term and 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. Subsequently, most options granted after April 1, 2012 have a five-year term and have one third 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 two years. A small number of options have special vesting schedules that were approved by the Board. 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 2016, the pre-forfeiture fair value of options granted was $1.4 million (2015 – $1.7 million). The weighted average fair value of options issued in fiscal 2016 was $2.35 per option (2015 – $2.56 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:

	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Black-Scholes option pricing assumptions		
Risk-free interest rate	**0.5%**	1.1%
Expected volatility	**32.7%**	33.5%
Expected time until exercise	**3.0 years**	3.0 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**28.4%**	27.2%

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

	53-week period ended April 2, 2016		52-week period ended March 28, 2015	
	Number #	**Weighted average exercise price C$**	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	**1,561,150**	**9.94**	1,676,150	9.75
Granted	**597,500**	**10.34**	667,500	10.66
Forfeited	**(133,930)**	**10.36**	(585,450)	10.58
Exercised	**(272,920)**	**9.79**	(197,050)	8.92
Outstanding options, end of period	**1,751,800**	**10.07**	1,561,150	9.94
Options exercisable, end of period	**651,550**	**9.59**	423,090	9.31

Options Outstanding and Exercisable

	April 2, 2016				
	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$
8.00 – 8.69	302,500	8.18	2.5	220,000	8.18
8.70 – 10.22	587,500	9.86	3.9	100,000	8.74
10.23 – 10.48	364,500	10.44	3.2	107,100	10.43
10.49 – 10.77	282,300	10.69	2.4	165,050	10.70
10.78 – 15.21	215,000	11.82	3.9	59,400	11.67
8.00 – 15.21	1,751,800	10.07	3.3	651,550	9.59

Directors' Compensation

The Company has established a Directors' Deferred Share Unit Plan ("DSU Plan"). During fiscal 2016, the DSU Plan was amended such that Directors must annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred share units ("DSUs") or receive up to 50% of this compensation in cash. Under the previous DSU Plan, Directors received their annual retainer fees and other Board-related compensation solely in the form of DSUs. All fiscal 2016 compensation was in the form of DSUs.

The number of shares reserved for issuance under this plan is 500,000. The Company issued 32,175 DSUs with a value of $0.4 million during fiscal 2016 (2015 – 30,158 DSUs with a value of $0.3 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at April 2, 2016 was $3.8 million (March 28, 2015 – $3.7 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

15. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Print[1]	620,219	583,492
General merchandise[2]	338,679	270,675
eReading[3]	14,452	18,148
Other[4]	20,831	23,061
Total	994,181	895,376

1 Includes books, calendars, magazines, newspapers, and shipping revenue.
2 Includes lifestyle, paper, toys, music, DVDs, electronics, and shipping revenue.
3 Includes eReaders, eReader accessories, Kobo revenue share, and shipping revenue.
4 Includes cafés, irewards, gift card breakage, plum breakage, and corporate sales.

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Wages, salaries, and bonuses	**178,147**	166,786
Short-term benefits expense	**19,897**	18,109
Termination benefits expense	**6,559**	3,146
Retirement benefits expense	**1,418**	1,335
Share-based compensation	**1,212**	910
Total employee benefits expense	**207,233**	190,286

Termination benefits arise when the Company terminates certain employment agreements.

Minimum lease payments recognized as an expense during fiscal 2016 were $55.9 million (2015 – $62.0 million). Contingent rents recognized as an expense during fiscal 2016 were $1.6 million (2015 – $1.2 million).

16. 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 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:

(thousands of shares)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Weighted average number of common shares outstanding, basic	**25,949**	25,723
Effect of dilutive securities – stock options	**212**	105
Weighted average number of common shares outstanding, diluted	**26,161**	25,828

As at April 2, 2016, 672,500 (March 28, 2015 – 1,068,500) options were excluded from the computation of diluted net earnings per common share in the current period as they were anti-dilutive.

17. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Net change in non-cash working capital balances:		
Accounts receivable	(2,767)	686
Inventories	(9,393)	10,584
Income taxes recoverable	(50)	(51)
Prepaid expenses	(5,813)	(293)
Accounts payable and accrued liabilities (current and long-term)	11,109	25,162
Unredeemed gift card liability	2,758	1,384
Provisions (current and long-term)	(880)	(69)
Deferred revenue	(66)	438
	(5,102)	37,841

18. CAPITAL MANAGEMENT

The Company's main objectives when managing capital are:

- Ensuring sufficient liquidity to support financial obligations and to execute operating and strategic objectives;
- Maintaining financial capacity and flexibility through access to capital to support future development of the business;
- Minimizing the cost of capital while taking into consideration current and future industry, market, and economic risks and conditions; and
- Utilizing short-term funding sources to manage working capital requirements and long-term funding sources to manage the long-term capital expenditures of the business.

There were no changes to these objectives during fiscal 2016. The primary activities engaged by the Company to generate attractive returns for shareholders 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 Company's sales networks. The Company's main sources of capital are its current cash position and cash flows generated from operations. Cash flow is primarily used to fund working capital needs and capital expenditures. The Company manages its capital structure in accordance with changes in economic conditions.

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

(thousands of Canadian dollars)	April 2, 2016	March 28, 2015
Current portion of long-term debt	53	172
Long-term debt	–	56
Total debt	53	228
Total equity	343,998	311,149
Total capital under management	344,051	311,377

19. 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 is largely limited to currency fluctuations between the Canadian and U.S. dollars. 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 customers is set in Canadian dollars. The Company also has a New York office that incurs U.S. dollar expenses. The Company did not use any forward contracts to manage foreign exchange risk in fiscal 2016 (2015 – no forward contracts).

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. The Company has performed a sensitivity analysis on its U.S. dollar denominated financial instruments, which consist principally of cash and cash equivalents of $34.0 million and trade payables of $7.8 million to determine how a change in the U.S. dollar exchange rate would impact net earnings. On April 2, 2016, a 10% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $3.4 million decrease or increase, respectively, in the Company's net earnings for the year ended April 2, 2016.

In fiscal 2016, the effect of foreign currency translation on net earnings (loss) and comprehensive earnings (loss) was a gain of $0.6 million (2015 – gain of $0.8 million).

Interest Rate Risk

The Company's interest rate risk is largely limited to its long-term debt, for which interest rates are fixed at the time a contract is finalized. The Company's interest income is also sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash and cash equivalents. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk.

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 April 2, 2016 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	142,288	28,824	–	171,112
Unredeemed gift card liability	50,969	–	–	50,969
Provisions	11	23	–	34
Current portion of long-term debt	–	53	–	53
Long-term accrued liabilities	–	–	4,483	4,483
Long-term provisions	–	–	109	109
Total	193,268	28,900	4,592	226,760

20. EQUITY INVESTMENT

The Company holds a 50% equity ownership in its associate, Calendar Club, to sell calendars, games, and gifts through seasonal kiosks and year-round stores in Canada. The Company uses the equity method of accounting to record Calendar Club results. In fiscal 2016, the Company received $0.7 million (2015 – $0.5 million) of distributions from Calendar Club.

The following tables represent financial information for Calendar Club along with the Company's share therein:

	Total		Company's share	
(thousands of Canadian dollars)	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Cash and cash equivalents	3,969	1,215	1,985	608
Total current assets	9,713	2,770	4,857	1,385
Total long-term assets	483	547	242	274
Total current liabilities	7,353	1,865	3,677	933

	Total		Company's share	
(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Revenue	36,200	32,434	18,100	16,217
Expenses	(33,166)	(30,902)	(16,583)	(15,451)
Depreciation	(239)	(221)	(120)	(111)
Net earnings	2,795	1,311	1,397	655

Changes in the carrying amount of the investment were as follows:

(thousands of Canadian dollars)	Carrying value
Balance, March 29, 2014	598
Equity income from Calendar Club	655
Distributions from Calendar Club	(527)
Balance, March 28, 2015	726
Equity income from Calendar Club	1,397
Distributions from Calendar Club	(702)
Balance, April 2, 2016	1,421

21. RELATED PARTY TRANSACTIONS

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

Transactions with Key Management Personnel

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

(thousands of Canadian dollars)	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Wages, salaries, and bonus	7,529	5,902
Short-term benefits expense	230	246
Termination benefits expense	454	–
Retirement benefits expense	69	43
Share-based compensation	675	427
Directors' compensation	384	341
Total remuneration	9,341	6,959

Transactions with Shareholders

During fiscal 2016, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2016, the Company paid $4.5 million for these goods and services (2015 – $3.2 million). As at April 2, 2016, Indigo had $0.1 million payable to these companies under standard payment terms and $2.8 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (March 28, 2015 – $0.2 million payable and $2.8 million restricted cash). All transactions were in the normal course of business for both Indigo and the related companies.

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 15. The Company has not entered into other transactions with the retirement plan.

Transactions with Associate

The Company's associate, Calendar Club, is a seasonal operation that is dependent on the December holiday sales season to generate revenue. During the year, the Company loans cash to Calendar Club for working capital requirements and Calendar Club repays the loans once profits are generated in the third quarter. The net amount of these transactions for fiscal 2016 was nil (2015 – nil), as Calendar Club has repaid all loans as at April 2, 2016. As at April 2, 2016, the Company also had a $3.6 million receivable from Calendar Club for payments made on behalf of Calendar Club to the Canada Revenue Agency. This receivable was repaid by Calendar Club subsequent to year end.

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 and Chief Executive Officer

Laura Carr
Executive Vice President and Chief Financial Officer

Kirsten Chapman
Chief Marketing Officer and
Executive Vice President, E-Commerce

Gildave (Gil) Dennis
Executive Vice President, Retail and Human Resources

Kathleen Flynn
Executive Vice President, Real Estate,
General Counsel and Corporate Secretary

Tod Morehead
Executive Vice President and
Group General Merchandise Manager

Krishna Nikhil
Executive Vice President, Print and
Chief Strategy Officer

Bahman (Bo) Parizadeh
Executive Vice President and
Chief Technology Officer

Michael Tan
Executive Vice President, Supply Chain,
Logistics and Global Sourcing

BOARD OF DIRECTORS

Frank Clegg
Volunteer Chairman and Chief Executive Officer
C4ST (Canadians for Safe Technology)

Jonathan Deitcher
Investment Advisor
RBC Dominion Securities Inc.

Mitchell Goldhar
Chairman of the Board
SmartREIT
and
President and Chief Executive Officer
Penguin Investments Inc.

Howard Grosfield
Executive Vice President, Consumer Marketing and Operations
American Express

Robert Haft
Managing Partner
Morgan Noble Healthcare Partners

Michael Kirby
Corporate Director
Chair of Partners for Mental Health

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President
O'Donovan Advisory Services Ltd.

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

Gerald Schwartz
Chairman and Chief Executive Officer
Onex Corporation

Joel Silver
Managing Partner
Trilogy Growth

Five-Year Summary of Financial Information

For the years ended (millions of Canadian dollars, except share and per share data)	April 2, 2016	March 28, 2015	March 29, 2014	March 30, 2013	March 31, 2012
SELECTED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	**695.3**	625.2	607.2	615.2	644.6
Small format stores	**140.2**	127.8	127.4	137.6	145.2
Online	**133.3**	114.0	102.0	91.9	91.3
Other	**25.4**	28.4	31.1	34.1	39.1
Total revenue	**994.2**	895.4	867.7	878.8	920.2
Adjusted EBITDA[1]	**43.1**	20.5	0.1	28.5	25.0
Earnings (loss) before income taxes	**22.1**	(3.2)	(26.9)	4.2	(29.3)
Net earnings (loss) and comprehensive earnings (loss)	**28.6**	(3.5)	(31.0)	4.3	66.2
Dividends per share	**–**	–	$ 0.33	$ 0.44	$ 0.44
Net earnings (loss) per common share	**$ 1.10**	$(0.14)	$(1.21)	$ 0.17	$ 3.68
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	**217.9**	198.7	189.7	224.3	223.7
Total assets	**584.0**	538.4	512.6	569.1	591.8
Long-term debt (including current portion)	**0.1**	0.2	0.8	1.5	2.2
Total equity	**344.0**	311.1	311.7	350.3	355.6
Weighted average number of shares outstanding	**25,949,068**	25,722,640	25,601,260	25,529,035	25,201,127
Common shares outstanding at end of period	**25,797,351**	25,495,289	25,298,239	25,297,389	25,238,414
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**88**	91	95	97	97
Small format stores	**123**	127	131	134	143
Selling square footage at end of period (in thousands)					
Superstores	**1,961**	2,056	2,200	2,235	2,235
Small format stores	**354**	361	370	379	400
Comparable store sales					
Superstores	**12.8%**	6.8%	(0.9%)	(4.6%)	(1.9%)
Small format stores	**10.9%**	0.8%	(5.0%)	(2.4%)	(0.8%)
Sales per selling square foot					
Superstores	**355**	304	281	280	294
Small format stores	**396**	354	344	362	363

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment.
Also see "Non-IFRS Financial Measures" in the Company's Management Discussion and Analysis section of the Annual Report.

Investor Information

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STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

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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
July 6, 2016 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.

Indigo's Commitment to Communities Across Canada

The Indigo Love of Reading Foundation (the "Foundation") exists to enrich the lives of Canadian children by providing funds through the donations of Indigo, its customers, employees, and suppliers to support the purchase of new and engaging books and educational resources for the libraries of high-needs elementary schools. Since 2004, the Foundation has invested over $23.5 million in more than 2,600 schools, impacting over 750,000 children. Together with Indigo's customers, the Foundation runs two signature programs each year. The Literacy Fund grant provides transformational support of $1.5 million to 20 schools that lack the resources to build and maintain healthy school libraries. As of the close of fiscal 2016, the Foundation's Literacy Fund grant program has donated $16.5 million to 190 elementary schools across Canada. Additionally, each fall, the Indigo Adopt a School program unites Indigo staff, local schools, and their communities to raise money for new library books for their local schools. In fiscal 2016, Indigo Adopt a School contributed over $1 million to more than 400 schools, bringing the program's fundraising support to $3.7 million for over 1,600 schools in just seven years.

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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