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

– ROBERTSON DAVIES

ANNUAL REPORT
FOR THE 52-WEEK PERIOD
ENDED APRIL 1, 2017

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 6,500 people across the country.

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

Table of Contents

3. Report of the CEO

5. Management's Responsibility for Financial Reporting

6. Management's Discussion and Analysis

27. Independent Auditors' Report

28. Consolidated Financial Statements and Notes

58. Corporate Governance Policies

59. Executive Management and Board of Directors

60. Five-Year Summary of Financial Information

61. Investor Information

62. Indigo's Commitment to Communities Across Canada

Report of the CEO

Dear Shareholder,

It is my pleasure to once again write to you in this, our year-end Annual Report.

2016/17 was a solid year for Indigo. We broke through the billion-dollar mark in total net revenue for the first time, increased our EBITDA by 21%, achieved best-in-class levels of employee engagement, won some prestigious awards, and perhaps best of all, earned very high ratings from our customers on our overall brand experience.

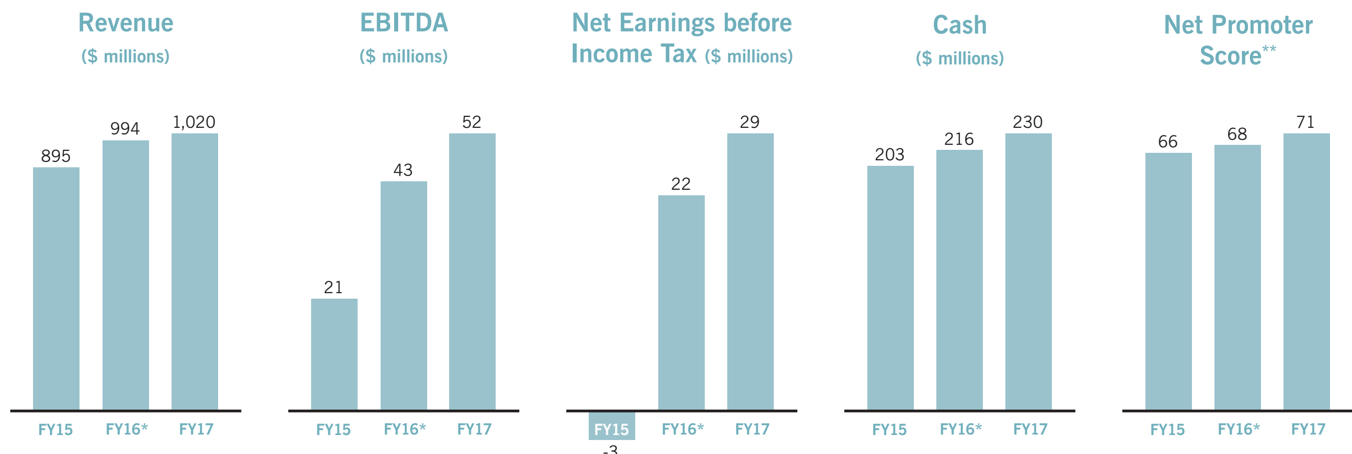
In May 2016, we launched the first of our true cultural department store formats at the wonderfully re-imagined CF Sherway Gardens, Toronto, Ontario. Everyone of our stakeholders has responded wonderfully to the new concept. Our publisher partners, the real estate community, our customers, and our employees have all shared their enthusiasm. Most exciting – this new store which replaced a store of almost the same size across the street, is producing 25% higher sales!

As a result of the warm reception to the new concept, we set the groundwork this year to begin a major three-year initiative to renovate our entire store network. This will be a big and exciting effort, designed to spur our growth and further strengthen our relationship with our customers.

At the same time, we also began work on what will be major advances in our digital experience, our supply chain, and our overall move to become a highly customer responsive omni-channel retailer.

We learned a great deal this year. From this learning will come the opportunity for valuable advances in all of the above areas.

In a snap shot – here are the key performance metrics for this past year:



* 2016 includes a 53rd week
** Net Promoter Score as defined by Opinion Lab

We are pleased that once again this year Randstad Corporation has announced that Indigo is the top retail employer brand and the fourth most favoured brand overall to work for in Canada.

In September 2016, Forrester Research announced that Indigo was ranked #1 in providing Best-In-Class Retail Customer Experience for Traditional Retailers (Stores and Digital) in Canada, out of 27 retailers. Indigo's customer experience was also ranked #3 out of 194 brands within 27 different industries in Canada. Indigo's Forrester CX Index score increased from 2015 and, in 2016, 51% of Indigo customers gave the Company an "Excellent" ranking. Each year, Forrester Research benchmarks the customer experience for more than 800 brands in eight global markets with their CX index.

Every year for the last 12 years I have used this report to share what we are doing on the "giving back" side. I am proud to share that the Indigo Love of Reading Foundation has once again made a big difference in the lives of literally thousands of children. This past year, together with Indigo's customers, the Foundation put another 235,000 books into the hands of Canadian children. In total, the Foundation contributed $2.4 million to high-needs schools throughout Canada. We also produced a documentary titled "Read Between the Lines" about the deep literacy challenges faced by teachers and children in high-needs schools. We hope this documentary will educate and inspire policy makers to take action to ensure that all children in this country have the opportunity to be highly literate.

As always, by the time this report comes out, we are well engaged in our new fiscal year.

There is a lot underway in every aspect of the organization as we look to continue to grow sales, improve profitability, and build a long term sustainable organization.

I want to thank all our shareholders for their continued support. Know we are working hard on your behalf.

I also want to thank our Directors who have provided such steady and valuable support both in formal meetings and informally between our meetings. Your engagement is truly valued.

Finally, and for me, most important, I want to say a big thank you to everyone who brings such passion to work every day. You are the best! You so embrace our mission to enrich the lives of our customers and of your colleagues. I feel fortunate to be working with all of you.

Until 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

R. Craig Loudon
Interim Chief Financial Officer

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 30, 2017 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week period ended April 1, 2017 and the 53-week period ended April 2, 2016. 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 1, 2017, the Company operated 89 superstores under the banners *Chapters* and *Indigo* and 123 small format stores under the banners *Coles*, *Indigospirit*, *SmithBooks*, and *The Book Company*.

As at April 1, 2017, the Company also employed approximately 6,500 people (on a full-time and part-time basis) and generated annual revenue of $1,019.8 million. 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, its suppliers, and its employees.

General Development of the Business

It has been 20 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. Indigo has been proactive in transforming its business in both its retail stores and digital offerings. 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, much of which is unique to Indigo. In addition, digital channels have provided customers with instant accessibility, wide selection, and lower prices.

The Company opened a new store concept at CF Sherway Gardens in Toronto, Ontario, at the beginning of fiscal 2017. The new store concept reflects Indigo's transformation from a bookstore to a cultural department store for booklovers; it is a digital and physical place inspired by and filled with books, ideas, and beautifully designed products. The Company is committed to investing in Indigo's brand and the customer experience, with plans to renovate further superstores to this new store concept. The Company's priorities remain focused on continuing to transform its physical and digital platforms, building a high performance organization, and optimizing its cost structure.

The Company's 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. The Company has invested, and will continue to invest, in book growth, enhancing the overall customer experience and improving productivity. In fiscal 2017, the Company optimized the book assortment in superstores, continued to refine its bestseller program, and expanded the staff picks and local authors programs. The Company will continue to adapt and improve all aspects of its book offering in both physical and digital channels through fiscal 2018 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 expand its 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. In fiscal 2017, the Company began selling Indigo's entire assortment of American Girl®[1] products on *indigo.ca*.

The Company's design and global sourcing team in New York leads the design and development of Indigo's proprietary merchandise. These private-label products are created by the Company's in-house creative team and are manufactured by third parties exclusively for Indigo. The Company is committed to adapting and improving its proprietary product development capability, expanding its line of gift and lifestyle merchandise which 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 only available at Indigo.

Transform Physical and Digital Platforms

The distinction between physical retail and digital retail is increasingly blurred as customers expect to have a seamless experience with the Indigo brand regardless of channel. Recognizing this, the Company is continuing to focus 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 drives valuable traffic to stores and provides customers with additional flexibility to decide where and when purchases are picked up.

The Company's physical stores are being renovated and refreshed as part of rolling out Indigo's new store concept and the Company's focus on being the preeminent destination for books and becoming a top-of-mind gifting destination for Canadians. The Company rebranded and renovated one superstore and three small format stores in fiscal 2017. The Company will continue to renovate and transform its physical stores in fiscal 2018. The Company also continues to explore opportunities both within Canada and globally.

In addition to reshaping Indigo's physical store offerings, the Company continues to invest heavily into its digital platforms. The Company has launched a dedicated team solely focused on the agile delivery of digital products and services to further enhance the customer experience. The Company continues its strong social media presence across Facebook, Instagram, Pinterest, and Twitter, with half a million followers on Facebook and over 150,000 on Instagram. The Company launched a dedicated Indigobaby® Instagram in fiscal 2017. In fiscal 2018 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 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 2017. The Company's two loyalty programs, irewards and plum rewards, 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 to support the Company's continued evolution and new business strategies. 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 fiscal 2017, the Company focused on implementing supply chain productivity initiatives designed to deliver improved operating margins and improve service to customers. The initiatives implemented to date have not yet brought the Company's supply chain and information management capabilities to a level that can efficiently support all of Indigo's planned strategies. Going forward, Indigo will continue to focus on driving end-to-end productivity and process efficiency in the supply chain and across the Company. The Company is also continuing the process of implementing a new product information management system.

Employee Engagement

In fiscal 2017, Indigo reached record-high employee engagement with an overall engagement index score of 89%. The Company's strategic efforts continue to focus on building and maintaining high levels of employee engagement through enhanced transparency, where all employees have a voice, as well as operating a more networked organization where employees are encouraged to connect regardless of hierarchy. Other initiatives driving our long-term engagement include the use of values-based leadership and the development of high-performing teams where individuals are encouraged to chart their own career paths and apply their strengths to meaningful work that allows them to bring their best selves to work at Indigo.

In April 2017, Indigo's employee engagement focus was again recognized outside of the Company, being named the top Canadian retail employer brand, and number four overall employer brand nationally, 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.

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 52-week period ended April 1, 2017 and the 53-week period ended April 2, 2016.

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

(millions of Canadian dollars)	52-week period ended April 1, 2017	% Revenue	53-week period ended April 2, 2016	% Revenue
Revenue	1,019.8	100.0	994.2	100.0
Cost of sales	(565.6)	55.5	(551.2)	55.4
Cost of operations	(299.0)	29.3	(294.1)	29.6
Selling, administrative, and other expenses	(103.0)	10.1	(105.8)	10.7
Adjusted EBITDA[1]	52.2	5.1	43.1	4.3

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

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies.

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)	52-week period ended April 1, 2017	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Revenue			
Superstores	702.1	695.3	625.2
Small format stores	140.7	140.2	127.8
Online (including store kiosks)	148.2	133.3	114.0
Other	28.8	25.4	28.4
	1,019.8	994.2	895.4
Earnings (loss) before income taxes	29.0	22.1	(3.2)
Income tax recovery (expense)	(8.1)	6.5	(0.3)
Net earnings (loss)	20.9	28.6	(3.5)
Total assets	608.6	584.0	538.4
Long-term debt (including current portion)	–	0.1	0.2
Working capital	248.1	217.9	198.7
Basic earnings (loss) per share	$0.79	$1.10	$(0.14)
Diluted earnings (loss) per share	$0.78	$1.09	$(0.14)

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

	52-week period ended April 1, 2017	53-week period ended April 2, 2016	52-week period ended March 28, 2015
Comparable Sales Growth[1]			
Total retail and online	4.1%	12.9%	6.5%
Superstores	2.9%	12.8%	6.8%
Small format stores	0.9%	10.9%	0.8%
Stores Opened			
Superstores	1	–	–
Small format stores	1	1	–
	2	1	–
Stores Closed			
Superstores	–	3	4
Small format stores	1	5	4
	1	8	8
Number of Stores Open at Year-End			
Superstores	89	88	91
Small format stores	123	123	127
	212	211	218
Selling Square Footage at Year-End (in thousands)			
Superstores	1,953	1,925	2,019
Small format stores	304	305	311
	2,257	2,230	2,330

1 See "Non-IFRS Financial Measures".

Revenue

Total consolidated revenue for the 52-week period ended April 1, 2017 increased $25.6 million or 2.6% to $1,019.8 million from $994.2 million for the 53-week period ended April 2, 2016. Higher revenue was driven by continued double-digit growth in general merchandise, particularly in the lifestyle and toy categories. Print sales remained solid, as sales of *Harry Potter and the Cursed Child* partially offset the declining trend for adult colouring books. On a normalized 52-week basis, total revenue was 4.0% higher compared to the same period last year.

Online revenue increased by $14.9 million or 11.2% to $148.2 million for the 52-week period ended April 1, 2017 compared to $133.3 million last year. Online sales continued to grow in both print and general merchandise, with exceptional growth in lifestyle and toys. On a normalized 52-week basis, total online revenue was 12.8% higher compared to the same period last year.

Total comparable sales, which includes online sales, increased by 4.1% from last year. Comparable retail store sales for the year increased 2.9% in superstores and 0.9% in small format stores. Increases in comparable sales were primarily driven by the same reasons discussed above. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. These measures exclude sales fluctuations due to store openings and closings, permanent relocation, material changes in square footage, and the impact of a 53-week fiscal year. Both measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. During the 52-week period ended April 1, 2017, the Company opened one new superstore and decided to operate a previously-opened pop-up store on a permanent basis. In the same period, the Company closed one small format store.

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 Rauten Kobo Inc. ("Kobo"). Revenue from other sources increased $3.4 million or 13.4% to $28.8 million for the 52-week period year ended April 1, 2017 compared to $25.4 million last year as higher gift card breakage and corporate sales were partially offset by lower Kobo revenue and irewards membership income. Subtle changes in consumer behaviour have impacted historic gift card redemption patterns and drove a $3.3 million increase in gift card breakage revenue compared to last year. The $2.2 million increase in corporate sales was driven by sales of slow-moving inventory. These increases were partially offset by a $1.1 million decrease in combined Kobo revenue share and irewards card sales. Kobo revenue share decreased due to the slowing pace of eBook sales while irewards card sales continued to decrease as members move to the free plum rewards program. On a normalized 52-week basis, total revenue from other sources was up 16.1% compared to the same period last year.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016	% increase (decrease)	Comparable store sales % increase (decrease)
Superstores	702.1	695.3	1.0	2.9
Small format stores	140.7	140.2	0.4	0.9
Online (including store kiosks)	148.2	133.3	11.2	12.8
Other	28.8	25.4	13.4	N/A
Total	1,019.8	994.2	2.6	4.1

Revenue by product line is as follows:

	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Print[1]	58.6%	61.9%
General merchandise[2]	37.7%	34.5%
eReading[3]	1.2%	1.5%
Other[4]	2.5%	2.1%
Total	100.0%	100.0%

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

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Total retail store revenue	842.8	835.5
Total online revenue	148.2	133.3
Adjustments for stores not in both fiscal periods	(39.6)	(41.6)
Adjustments for week 53 revenues	–	(13.0)
Total comparable sales	951.4	914.2

	Superstores		Small format stores	
(millions of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Total revenue by format	702.1	695.3	140.7	140.2
Adjustments for stores not in both fiscal periods	(33.2)	(36.4)	(6.4)	(5.2)
Adjustments for week 53 revenue	–	(9.2)	–	(1.9)
Comparable retail store sales	668.9	649.7	134.3	133.1

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased $14.4 million to $565.6 million for the 52-week period ended April 1, 2017, compared to $551.2 million last year. The increase was driven by higher sales volumes, as discussed above. As a percent of total revenue, cost of sales increased 0.1% to 55.5% compared to 55.4% last year. Higher discounts driven by promotional discounting of *Harry Potter and the Cursed Child* and increased summer markdowns on slow-moving general merchandise were partially offset by greater sell-through of full-priced goods during the November/December holiday season.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased $4.9 million to $299.0 million for the 52-week period ended April 1, 2017, compared to $294.1 million last year. As a percent of total revenue, cost of operations decreased by 0.3% to 29.3% this year, compared to 29.6% last year.

Store-level operating costs decreased by $3.0 million primarily due to lower occupancy costs from having one fewer week in fiscal 2017 compared to last year and improved selling and administration efficiencies within retail store operations. Total distribution centre costs, which includes both retail and online, increased by $7.9 million due to both higher sales volume and increased labour costs. Higher distribution centre labour costs were partly driven by increased wage rates, which were required to attract seasonal labour in an increasingly competitive market.

During the year, the Company also went live with new systems and processes intended to improve the productivity of its online distribution centre. These initiatives did not achieve the productivity improvements envisioned. The launch resulted in some stabilization challenges which impacted the Company's online fulfilment capabilities during peak holiday season days and resulted in additional project costs to achieve delivery commitments. However, the Company has developed a plan to address these challenges and achieve improved performance.

Selling, Administrative, and Other Expenses

Selling, administrative, and other expenses include marketing, head office costs, and operating expenses associated with the Company's strategic initiatives. These expenses decreased $2.8 million to $103.0 million for the 52-week period ended April 1, 2017, compared to $105.8 million last year. As a percent of total revenue, selling, administrative, and other expenses decreased by 0.6 % to 10.1%, compared to 10.7% last year. Last year, the Company received one-time net proceeds of $4.5 million related to exiting a lease, without which current year expenses would have decreased by $7.3 million.

Lower expenses in the current year were driven primarily by a decrease in bonus accruals this year compared to the exceptional performance of the prior year and by non-recurring proceeds resulting from a reconciliation of café charges. These reductions were partly offset by increased marketing costs and a lower foreign exchange gain. Increased marketing costs are consistent with the Company's revenue growth and have remained flat year-over-year as a percentage of revenue. In the current year, there was a foreign exchange gain of $0.2 million, compared to a $0.6 million gain last year.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment increased $9.1 million to $52.2 million for the 52-week period ended April 1, 2017, compared to $43.1 million for the 53-week period ended April 2, 2016. Adjusted EBITDA as a percent of revenue increased to 5.1% this year from 4.3% last year. As indicated above, the Company had a one-time impact of receiving $4.5 million from exiting a lease last year. Excluding this impact, adjusted EBITDA increased $13.6 million compared to last year. Higher adjusted EBITDA was driven by continued growth in revenue and margin and by lower head office costs, partially offset by higher operating costs at the retail and online distribution centres. A reconciliation of adjusted EBITDA to net earnings before taxes has been included in the "Non-IFRS Financial Measures" section of Management's Discussion and Analysis.

Capital Assets

Depreciation and amortization for the 52-week period ended April 1, 2017 increased by $1.4 million to $25.2 million compared to $23.8 million last year. The increase in amortization was driven by higher capital asset additions in fiscal 2016 compared to fiscal 2015.

Capital expenditures in fiscal 2017 totalled $30.6 million compared to $29.2 million last year. Capital expenditures in the current year were driven by the opening of a new superstore, continued implementation of changes across Indigo's retail outlets, and investments in the Company's digital business through back-end productivity initiatives, including increased distribution centre automation and a new product information management system. Fiscal 2017 capital expenditures included

$17.4 million for retail store renovations and equipment, $3.1 million for technology equipment, and $10.1 million primarily for application software and internal development costs. None of the capital expenditures were financed through leases.

Certain distribution centre automation initiatives and certain work completed towards a new product information management system did not meet the Company's expectations during the year. Management reviewed these projects and identified capitalized costs related to processes which are no longer expected to be used by the Company and therefore must be derecognized. As at April 1, 2017, $2.8 million of capital assets were written down for these projects.

The Company also assessed whether indicators of capital asset impairment or impairment reversals existed at each reporting date. For capital assets that could be reasonably and consistently allocated to individual stores, the store level was used as the cash-generating unit ("CGU"). During the year, impairment and reversal indicators were identified for certain CGUs. As a result of identifying impairment and reversal indicators, the Company performed testing that resulted in a reversal of previously recorded 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 $1.0 million of capital asset impairment reversals during fiscal 2017 compared to net capital asset impairment reversals of $1.6 million last year. Impairment reversals in both years were driven by improved store performance and the likelihood of lease term renewals. Last year, impairment losses of $0.6 million arose due to a store closure. All impairment reversals and losses were spread across a number of CGUs at the store level.

Net Interest Income

The Company recognized net interest income of $2.2 million for the 52-week period ended April 1, 2017, compared to $0.8 million last year. The Company nets interest income against interest expense. Compared to last year, the Company generated more interest income by maintaining a higher average cash balance in short-term investments at higher interest rates.

The Company also had lower expenses in the current year. Last year, the Company paid interest and penalties of $0.7 million to the government as the result of Canada Revenue Agency ("CRA") tax audits on prior year returns of the Company and Calendar Club. The CRA has not yet responded to the Company's Notice of Objection filed last year, which disputed the interest and penalties resulting from the audit findings.

Earnings from Equity Investment

The Company uses the equity method to account for its investment in Calendar Club and recognizes its share of Calendar Club's earnings as part of consolidated net earnings. Calendar Club is primarily a seasonal operation that is dependent on the November/December holiday sales season to generate revenue. The Company recognized net earnings from Calendar Club of $1.6 million for the 52-week period ended April 1, 2017, compared to net earnings of $1.4 million last year.

Earnings Before Income Taxes

The Company recorded earnings before income taxes of $29.0 million for the 52-week period ended April 1, 2017, compared to earnings before income taxes of $22.1 million in the 53-week period last year. Excluding the Company's one-time proceeds from disposal of a lease in the prior year period, the Company recognized adjusted pre-tax earnings of $17.6 million last year. Higher pre-tax earnings in the current year were driven by improved revenue and margin and lower head office costs, partially offset by higher distribution centre operating costs and increased capital asset disposals.

Income Taxes

The Company recognized a primarily non-cash income tax expense of $8.1 million for the 52-week period ended April 1, 2017, compared to recognizing a net non-cash income tax recovery of $6.5 million in the 53-week period last year. Income tax expense in the current year primarily relates to a decrease in deferred tax assets. Last year, the Company fully reversed a previously-recorded valuation allowance against deferred tax assets based on management's best estimate of future taxable

income the Company expected to achieve, which resulted in an income tax recovery. Excluding the impact of the valuation allowance, income tax expense in the comparative prior year period was $5.9 million. The Company's current year effective tax rate was 28.0% compared to (29.3%) last year due to the one-time impact of the valuation allowance reversal.

Net Earnings

The Company recognized net earnings of $20.9 million for the 52-week period ended April 1, 2017 ($0.79 net earnings per common share), compared to net earnings of $28.6 million ($1.10 net earnings per common share) in the 53-week period last year. As discussed above, the decrease in net earnings was primarily driven by the recognition of income tax expense in the current year compared to a net income tax recovery last year.

Other Comprehensive Income

During the first quarter of fiscal 2017, the Company implemented a formal hedging policy to mitigate foreign exchange risk, entering into contracts to manage the currency fluctuation risk associated with forecasted U.S. dollar expenses, primarily for general merchandise inventory purchases. All contracts entered into during the year have been designated as cash flow hedges for accounting purposes.

During 52-week period ended April 1, 2017, the Company entered into forward contracts with total notional amounts of C$173.4 million, respectively, to buy U.S. dollars and sell Canadian dollars. As at April 1, 2017, the Company had remaining forward contracts in place representing a total notional amount of C$70.3 million. These contracts extend over a period not exceeding 12 months. The total fair value of the outstanding contracts as at April 1, 2017 resulted in an unrealized net gain of $0.3 million. During the 52-week period ended April 1, 2017, net gains of $1.2 million from settled contracts were reclassified from other comprehensive income to inventory and expenses. Reclassified amounts resulting from hedge ineffectiveness were immaterial for the 52-week period ended April 1, 2017.

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 November/December holiday sales season. A disproportionate amount of revenues and profits are earned in the third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year. The following table sets out revenue, net earnings (loss), basic and diluted earnings (loss) per share for the preceding eight fiscal quarters. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal year 2017 was 52 weeks, while fiscal year 2016 was 53 weeks.

	Fiscal quarters							
(millions of Canadian dollars, except per share data)	Q4[1] Fiscal 2017	Q3[1] Fiscal 2017	Q2[1] Fiscal 2017	Q1[1] Fiscal 2017	Q4[2] Fiscal 2016	Q3[1] Fiscal 2016	Q2[1] Fiscal 2016	Q1[1] Fiscal 2016
Revenue	209.5	400.3	216.9	193.1	220.4	383.2	205.7	184.9
Total net earnings (loss)	(8.9)	40.0	(1.2)	(9.0)	(13.4)	52.8	(1.8)	(9.0)
Basic earnings (loss) per share	($0.33)	$1.51	($0.04)	($0.34)	($0.51)	$2.03	$(0.07)	$(0.35)
Diluted earnings (loss) per share	($0.33)	$1.48	($0.04)	($0.34)	($0.51)	$2.02	$(0.07)	$(0.35)

[1] 13 week period
[2] 14 week period

On a 13-week basis, total comparable sales, which includes online sales, increased by 0.8% in the fourth quarter. Comparable retail store sales for the same period decreased 2.5% in superstores and 5.2% in small format stores. The increase in total comparable sales was primarily driven by continued general merchandise growth and strong online sales growth, offset by the

shift in Boxing Week, which was included in the third quarter this year. The decline in the trend for adult colouring books also had a greater impact on small format stores, where the product mix is more focused towards print categories.

For the 13-week period ended April 1, 2017, total consolidated revenue decreased by $10.9 million to $209.5 million compared to $220.4 million for the 14-week period ended April 2, 2016. Retail revenue decreased by $17.0 million, or 9.3%, to $165.5 million compared to $182.5 million in the same quarter last year. The decrease was driven by a shorter quarter in the current year and the shift in the timing of Boxing Week sales discussed above. Online revenue showed continued growth, increasing by $4.5 million, or 14.5%, to $35.6 million compared to $31.1 million in the same quarter last year. The growth in online revenue was driven by the success of an increased number of March Break promotions in the current period.

Net loss for the 13-week period ended April 1, 2017 was $8.9 million compared to a loss of $13.4 million for the 14-week period ended April 2, 2016. As previously discussed, the Company had lower bonus accruals this period compared to the exceptional performance of the prior period and non-recurring proceeds resulting from a reconciliation of café charges. Additionally, the impact of foreign exchange in the current quarter was a gain of $0.1 million compared to a loss of $1.9 million in the same quarter last year due to implementation of a hedging program in fiscal 2017. These expense reductions were partially offset by higher capital asset disposals driven by the previously discussed capital asset derecognitions. The Company also recognized a $3.1 million net income tax recovery in the fourth quarter of fiscal 2017 compared to a $4.3 million net income tax recovery in the same quarter last year.

Overview of Consolidated Balance Sheets

Assets

As at April 1, 2017, total assets increased $24.6 million to $608.6 million, compared to $584.0 million as at April 2, 2016. The increase was driven by higher inventory, cash, and short-term investments, partly offset by lower deferred tax assets. The inventories increase of $13.8 million was primarily driven by higher trade book inventory as sales of key titles were lower than anticipated. The $14.0 million increase in combined cash, cash equivalents, and short-term investments was driven by higher cash balances from continued improvements in revenue and margin. Deferred tax assets were applied to offset the Company's estimated tax expense, resulting in a $7.9 million decrease in assets.

On February 17, 2017, the Company formalized a Letter of Intent with Starbucks Coffee Canada Inc. ("Starbucks") whereby, among other things, the Company and Starbucks mutually agreed to terminate the Company's license to operate Starbucks-branded cafes within 11 retail locations. Based on the terms of the Letter of Intent, the Company agreed to transfer to Starbucks the café inventories and capital assets from the terminated licensed locations, and the Company classified these inventories and capital assets as assets held for sale. Subsequent to the transfer, the Company will sublease space in each of the previously licensed locations for Starbucks to operate corporate-run cafes, similar to the 72 other Starbucks-branded cafes Starbucks operates in the Company's retail locations. The transfer and subsequent subleasing were completed on May 1, 2017.

Liabilities

As at April 1, 2017, total liabilities decreased $3.2 million to $236.8 million, compared to $240.0 million as at April 2, 2016. The decrease was primarily the result of a $2.6 million decrease in current and long-term accounts payable and accrued liabilities. As previously discussed, bonus accruals included as part of total accounts payable and accrued liabilities were lower than last year and the Company also recorded a one-time $3.6 million payable last year related to CRA audits, resulting in lower payables for the current year.

Equity

Total equity at April 1, 2017 increased $27.8 million to $371.8 million, compared to $344.0 million as at April 2, 2016. The increase in total equity was driven by net earnings of $20.9 million for the current year. Share capital increased by $6.7 million due to the exercise of stock options and Directors' deferred share units ("DSUs"). Correspondingly, contributed surplus decreased due to exercise of stock options, but the decrease was substantially offset by the issuance of new stock options.

The weighted average number of common shares outstanding for fiscal 2017 was 26,384,775 compared to 25,949,068 last year. As at May 30, 2017, the number of outstanding common shares was 26,352,484 with a book value of $216.0 million.

Working Capital and Leverage

The Company reported working capital of $248.1 million as at April 1, 2017, compared to $217.9 million as at April 2, 2016. Increased working capital compared to last year was driven by higher current assets. As previously discussed, inventories increased by $13.8 million and combined cash, cash equivalents, and short-term investments increased by $14.0 million.

The Company's leverage position (defined as Total Liabilities to Total Equity) decreased slightly at 0.6:1 as April 1, 2017 compared to 0.7:1 as at April 2, 2016 as total liabilities increased at a slower rate than total equity.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $86.1 million during fiscal 2017 compared to an increase of $13.3 million last year. The current year decrease was driven by non-redeemable short-term investments which do not meet the criteria for recognition as cash equivalents. Excluding the impact of short-term investments, cash and cash equivalents increased by $14.0 million in fiscal 2017. Cash used for investing activities was $127.4 million, driven by short-term investments. This use of cash was partially offset by cash flows generated from operating activities of $35.6 million, financing activities of $4.9 million, and the effect of foreign currency exchange rate changes on cash and cash equivalents of $0.9 million.

Cash Flows from Operating Activities

The Company generated cash flows of $35.6 million from operating activities in fiscal 2017 compared to generating $38.6 million last year, a decrease of $3.0 million. The decrease was driven by a reduction in cash generated from working capital, partly offset by the usage of deferred tax assets in the current year. The Company used $17.2 million of cash for working capital this year compared to using $5.1 million of cash for working capital last year, primarily driven by the timing of prepaid expenses and higher print inventories in the current year. Last year, the Company did not use deferred tax assets due to the offset from the previously discussed valuation allowance.

Cash Flows Used for Investing Activities

The Company used cash flows of $127.4 million for investing activities in fiscal 2017 compared to $27.0 million used for investing activities last year, an increase of $100.4 million. The Company reported $100.0 million of non-redeemable short-term investments in the current year. In the previous year, the Company's short-term investments all met the criteria for classification as cash equivalents. The Company spent $30.6 million on capital projects this year compared to spending $29.2 million last year. As discussed above, the Company is investing in a number of initiatives to improve productivity and enhance the customer experience. Cash was also used for the construction of a new superstore which opened during the first quarter of fiscal 2017.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Construction, renovations, and equipment	17.4	17.0
Intangible assets (primarily application software and internal development costs)	10.1	9.0
Technology equipment	3.1	3.2
Total	30.6	29.2

Cash Flows from Financing Activities

The Company generated cash flows of $4.9 million from financing activities in fiscal 2017 compared to generating $1.5 million last year, an increase of $3.4 million. The increase was driven by a greater number of option exercises in the current year. Proceeds from share issuances due to option exercises increased by $2.3 million this year compared to last year. Last year, cash generated was partially offset by interest and penalties paid to the CRA of $0.7 million, as previously discussed.

Liquidity and Capital Resources

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

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
Total obligations	57.7	73.8	34.9	60.2	226.6

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position and future cash flows generated from operations to be sufficient to meet its working capital needs for fiscal 2018. In addition, the Company has the ability to reduce capital spending if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of 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 is 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 gift card breakage 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 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 each reporting date 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 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 certain variables, such as future sales, gross margin rates, expenses, capital expenditures, working capital investments, and lease terms, 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, 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 on an ongoing basis 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 2017

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. Implementation of these amendments in fiscal 2017 did not have a significant impact on the Company's financial statements and disclosures.

New Accounting Pronouncements

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. Adopting these amendments will not have a significant impact on the Company's results of operations, financial position, or disclosures. The Company applied this standard beginning April 2, 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 retrospectively using either the retrospective or cumulative effect method for annual reporting periods beginning on or after January 1, 2018. The Company plans to apply this standard beginning April 1, 2018 but has not yet determined which transition method it will apply.

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

Financial Instruments (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, “Financial Instruments: Recognition and Measurement,” and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company plans to apply this standard beginning on April 1, 2018.

IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company is currently assessing the impact of this change and other impacts of adopting this standard on its results of operations, financial position, and disclosures.

Leases (“IFRS 16”)

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

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

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. Economic conditions, both on a global scale and in particular markets, may have significant effects on consumer confidence and spending. A decline in consumer spending, especially over the November/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.

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 could 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.

Real Estate

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 also unfavourably impact the Company's performance.

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 parties to provide services essential to daily operations. Any disruption to these third-party services could have an unfavourable impact on the Company's performance and reputation, including 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.

Inventory Management

The Company must manage its inventory levels to successfully operate the business. Inventory purchases are based on a number of variables, such as market trends and sales forecasts. Inability to respond to changing customer preferences or sales forecasts which do not match customer demand may result in excess inventory that must be sold at lower prices or an inventory shortage. While the majority of the Company's book purchases are eligible for return to suppliers at full credit, the growth of the general merchandise business means 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 and relies on vendors to provide quality merchandise compliant with all applicable laws. 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 physical infrastructure, or those of Indigo's third-party vendors, cloud-based services, 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 brand and reputation, lead to temporary or permanent loss of data, increase the Company's remediation costs and legal liabilities, and impact its financial position and/or ability to achieve its strategic objectives. Although Indigo has business continuity plans and other safeguards in place, along with robust information security procedures, employee security awareness training 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 and become more difficult to detect, the Company may be required to expend significant additional resources to continue to modify or enhance Indigo's protective measures to protect against, among other things, security breaches, computer viruses and malware, phishing, hacktivism, cyberterrorism, denial-of-service attacks, credentials compromise, 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.

Key Personnel

The Company's continued success will depend to a significant extent upon securing and retaining sufficient talent in management and other key areas. Employees have developed specialized skills and an in-depth knowledge of the business. Failure to effectively attract and retain talented and experienced employees or failure to establish adequate succession planning could result in a lack of requisite knowledge, skill and experience. If the Company does not continue to attract qualified individuals, train them in Indigo's business model, support their development, and retain them, the Company's performance could be adversely affected and growth could be limited. 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.

Corporate Reputation

The Company's corporate reputation and those of its retail banners are very important to Indigo's success and competitive position. The Company's reputation and, consequently, its brand, may be negatively affected by various factors, some of which may be outside of Indigo's control. Adverse events may damage the Company's reputation and brand at the corporate or retail level. Should negative factors materialize and diminish Indigo's brand equity, there could be a material adverse effect on the Company's operations and financial performance.

Credit, Foreign Exchange, and Interest Rate Risks

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments.

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 limits its exposure to counterparty credit risk related to cash and cash equivalents, short-term investments, and derivative financial instruments by transacting only with highly-rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity.

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. The Company maintains a hedging program to mitigate foreign exchange risk.

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents and short-term investments. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk. The Company does not currently have any debt.

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 1, 2017 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 subject to a number of laws and regulations in Canada and in other countries. Changes to statutes, laws, regulations or regulatory policies, including tax laws, accounting principles, and environmental regulations, or changes in their interpretation, implementation or enforcement, could adversely affect the Company's operations and performance. The Company may incur significant costs in the course of complying with any such changes.

The Company is also subject to continuous examination of its regulatory filings by various securities regulators, tax authorities, and environmental stewards. As a result, authorities may disagree with the positions and conclusions taken by the Company in its filings, resulting in a reassessment. Reassessments could also arise from amended legislation or new interpretations of current legislation. Any reassessment could adversely affect the Company's financial performance.

Failure to comply with applicable regulations could also 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, retention, 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, retention, 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 interim Chief Financial Officer ("interim 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 interim 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 1, 2017.

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 interim 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 1, 2017.

Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2017 and ended on April 1, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

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

Non-IFRS Financial Measures

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

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

Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are defined as sales generated by stores that have been open for more than 12 fiscal periods on a 52-week basis. These measures exclude sales fluctuations due to store openings and closings, permanent relocation, material changes in square footage, and the impact of a 53-week fiscal year. Both measures are key performance indicators for the Company. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

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

(millions of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Adjusted EBITDA	52.2	43.1
Depreciation of property, plant, and equipment	(16.6)	(14.7)
Amortization of intangible assets	(8.6)	(9.1)
Net reversal of capital asset impairments	1.0	1.6
Loss on disposal of capital assets	(2.8)	(1.0)
Net interest income	2.2	0.8
Share of earnings from joint venture	1.6	1.4
Earnings before income taxes	**29.0**	22.1

The Company has also provided non-GAAP normalized revenue data to remove the effect of having a 52-week fiscal year in 2017 compared to the 53-week fiscal year ended April 2, 2016. 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 2017 revenue	Fiscal 2016 revenue (full year)	Fiscal 2016 revenue (week 53)	Fiscal 2016 revenue (normalized)
Superstores	702.1	695.3	9.2	686.1
Small format stores	140.7	140.2	1.9	138.3
Online (including store kiosks)	148.2	133.3	1.9	131.4
Other	28.8	25.4	0.6	24.8
Total	**1,019.8**	994.2	13.6	980.6

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 1, 2017 and April 2, 2016, and the consolidated statements of earnings and comprehensive earnings, changes in equity, and cash flows for the 52 week period ended April 1, 2017 and the 53 week period ended April 2, 2016, and a summary of significant accounting policies and other explanatory information.

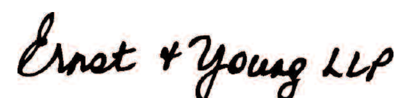
Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is 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 1, 2017 and April 2, 2016, and its financial performance and its cash flows for the 52-week period ended April 1, 2017 and for the 53-week period ended April 2, 2016 in accordance with International Financial Reporting Standards



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 30, 2017

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at April 1, 2017	As at April 2, 2016
ASSETS		
Current		
Cash and cash equivalents (note 6)	130,438	216,488
Short-term investments (note 6)	100,000	–
Accounts receivable	7,448	7,663
Inventories (note 7)	231,576	217,788
Income taxes recoverable	–	25
Prepaid expenses	11,706	11,290
Derivative financial instruments (note 8)	266	–
Assets held for sale (note 11)	1,037	–
Total current assets	482,471	453,254
Property, plant, and equipment (note 9)	65,078	60,973
Intangible assets (note 10)	15,272	16,506
Equity investment (note 22)	1,800	1,421
Deferred tax assets (note 12)	43,981	51,836
Total assets	608,602	583,990
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (note 21)	170,611	171,112
Unredeemed gift card liability	50,396	50,969
Provisions (note 13)	110	34
Deferred revenue	12,852	13,232
Income taxes payable	360	–
Current portion of long-term debt	–	53
Total current liabilities	234,329	235,400
Long-term accrued liabilities (note 21)	2,378	4,483
Long-term provisions (note 13)	51	109
Total liabilities	236,758	239,992
Equity		
Share capital (note 15)	215,971	209,318
Contributed surplus (note 16)	10,671	10,591
Retained earnings	145,007	124,089
Accumulated other comprehensive income (note 8)	195	–
Total equity	371,844	343,998
Total liabilities and equity	608,602	583,990

See accompanying notes

On behalf of the Board:

Heather Reisman
Director

Michael Kirby
Director

Consolidated Statements of Earnings and Comprehensive Earnings

(thousands of Canadian dollars, except per share data)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Revenue (note 17)	1,019,845	994,181
Cost of sales	(565,640)	(551,194)
Gross profit	454,205	442,987
Operating, selling, and administrative expenses (notes 9, 10 and 17)	(428,981)	(423,037)
Operating profit	25,224	19,950
Net interest income	2,196	753
Share of earnings from equity investment (note 22)	1,617	1,397
Earnings before income taxes	29,037	22,100
Income tax recovery (expense) (note 12)		
Current	(335)	50
Deferred	(7,784)	6,431
Net earnings	20,918	28,581
Other comprehensive income (note 8)		
Items that are or may be reclassified subsequently to net earnings:		
Net change in fair value of cash flow hedges (net of taxes of (496); 2016 – 0)	1,357	–
Reclassification of net realized gain (net of taxes of 425; 2016 – 0)	(1,162)	–
Other comprehensive income	195	–
Total comprehensive earnings	21,113	28,581
Net earnings per common share (note 18)		
Basic	$0.79	$1.10
Diluted	$0.78	$1.09

See accompanying notes

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, March 28, 2015	205,871	9,770	95,508	–	311,149
Net earnings	–	–	28,581	–	28,581
Exercise of options (notes 15 and 16)	3,156	(484)	–	–	2,672
Directors' deferred share units converted (note 15)	291	(291)	–	–	–
Share-based compensation (notes 16 and 17)	–	1,212	–	–	1,212
Directors' compensation (note 16)	–	384	–	–	384
Other comprehensive income (note 8)	–	–	–	–	–
Balance, April 2, 2016	209,318	10,591	124,089	–	343,998
Balance, April 2, 2016	**209,318**	**10,591**	**124,089**	**–**	**343,998**
Net earnings	**–**	**–**	**20,918**	**–**	**20,918**
Exercise of options (notes 15 and 16)	**5,983**	**(1,017)**	**–**	**–**	**4,966**
Directors' deferred share units converted (note 15)	**670**	**(670)**	**–**	**–**	**–**
Share-based compensation (notes 16 and 17)	**–**	**1,400**	**–**	**–**	**1,400**
Directors' compensation (note 16)	**–**	**367**	**–**	**–**	**367**
Other comprehensive income (note 8)	**–**	**–**	**–**	**195**	**195**
Balance, April 1, 2017	**215,971**	**10,671**	**145,007**	**195**	**371,844**

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	20,918	28,581
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment (note 9)	16,612	14,739
Amortization of intangible assets (note 10)	8,573	9,073
Net reversal of capital asset impairments (notes 9 and 10)	(963)	(1,620)
Loss on disposal of capital assets (notes 9 and 10)	2,770	1,039
Share-based compensation (note 16)	1,400	1,212
Directors' compensation (note 16)	367	384
Deferred tax assets (note 12)	7,784	(7,595)
Assets held for sale (note 11)	(1,037)	–
Other	147	(58)
Net change in non-cash working capital balances (note 19)	(17,196)	(5,102)
Interest expense	36	1,000
Interest income	(2,232)	(1,753)
Income taxes received	51	50
Share of earnings from equity investment (note 22)	(1,617)	(1,397)
Cash flows from operating activities	35,613	38,553
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment (note 9)	(19,774)	(20,243)
Addition of intangible assets (note 10)	(10,089)	(9,000)
Short-term investments (note 6)	(100,000)	–
Proceeds from disposal of capital assets	–	6
Distributions from equity investment (note 22)	1,238	702
Interest received	1,190	1,522
Cash flows used for investing activities	(127,435)	(27,013)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(53)	(175)
Interest paid	(28)	(995)
Proceeds from share issuances (note 15)	4,966	2,672
Cash flows from financing activities	4,885	1,502
Effect of foreign currency exchange rate changes on cash and cash equivalents	887	284
Net increase (decrease) in cash and cash equivalents during the period	(86,050)	13,326
Cash and cash equivalents, beginning of period	216,488	203,162
Cash and cash equivalents, end of period	130,438	216,488

See accompanying notes

Notes to Consolidated Financial Statements

April 1, 2017

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, Indigo Design Studios Inc. (formerly Soho Studios 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 89 superstores (2016 – 88) under the *Indigo* and *Chapters* names, as well as 123 small format stores (2016 – 123) 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, its suppliers, and its 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 30, 2017.

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 1, 2017 contained 52 weeks, while the year ended April 2, 2016 contained 53 weeks. The next 53-week period will be for the fiscal year ending April 3, 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 is 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 gift card breakage 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 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 each reporting date 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 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 certain variables, such as future sales, gross margin rates, expenses, capital expenditures, working capital investments, and lease terms, 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, 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 on an ongoing basis 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 are 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 Indigo 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.

Short-term Investments

Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than 365 days from the date of acquisition. These investments are non-redeemable until the maturity date.

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 differ

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 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 and corresponding long-term liability are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

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 liability is reduced by lease payments less interest paid. Interest payments are expensed as part of net interest on the consolidated statements of earnings (loss) and comprehensive earnings (loss) over the period of the lease.

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 1, 2017, 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 1, 2017, 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 quarterly and 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.

Assets Held for Sale

Non-current assets are classified as assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. To qualify as assets held for sale, the sale must be highly probable, assets must be available for immediate sale in their present condition, and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell and are not depreciated.

Provisions

A provision is a liability of uncertain timing or amount. 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, if any. 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 net interest.

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 and kiosk sales

Revenue for online and kiosk 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 revenue 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 and included as part of net interest in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

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, selling, 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.

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. Derivatives are classified as fair value through profit or loss unless they are designated as effective hedging instruments.

(iii) Held-to-maturity investments – These are non-derivative financial assets with fixed or determinable payments and fixed maturities that 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
Short-term investments	Held-to-maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Derivative instruments	Fair value through profit or loss	Fair value

All other consolidated 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 unadjusted 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.

The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to market data and other valuation techniques, as appropriate:

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

(ii) The initial fair value of long-term debt, if any, 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. These instruments are subsequently measured at amortized cost; and

(iii) The fair value of derivative financial instruments are estimated using quoted market rates at the measurement date adjusted for the maturity term of each instrument. Derivative financial instruments are classified as level 2 in the fair value hierarchy.

Derivative financial instruments and hedge accounting

The Company enters into various derivative financial instruments as part of its strategy to manage foreign currency exposure. All contracts entered into during the year have been designated as cash flow hedges for accounting purposes. The Company does not hold or issue derivative financial instruments for trading purposes. All derivative financial instruments, including derivatives embedded in financial or non-financial contracts not closely related to the host contracts, are measured at fair value. The gain or loss that results from remeasurement at each reporting period is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in net income depends on the nature of the hedge relationship.

At the inception of a hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item along with the Company's risk management objectives and strategy for undertaking various hedge transactions. Furthermore, at inception and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Accordingly, the effective portion of the change in the fair value of the foreign exchange forward contracts that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss) until related payments have been made in future accounting periods. Associated gains and losses recognized in other comprehensive income (loss) are reclassified to earnings in the periods when the hedged item is recognized in earnings. These earnings are included within the same line of the consolidated statement of earnings (loss) as the recognized item. However, when the hedged forecast transaction results in the recognition of a non-financial asset, the gains and losses previously recognized in other comprehensive income (loss) are transferred from equity and included in the initial measurement of the cost of the non-financial asset. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of earnings (loss).

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 2017

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. Implementation of these amendments in 2017 did not have a significant impact on the Company's financial statements and annual disclosures.

5. NEW ACCOUNTING PRONOUNCEMENTS

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. Adopting these amendments will not have a significant impact on the Company's results of operations, financial position, or disclosures. The Company applied this standard beginning April 2, 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 retrospectively using either the retrospective or cumulative effect method for annual reporting periods beginning on or after January 1, 2018. The Company plans to apply this standard beginning April 1, 2018 but has not yet determined which transition method it will apply.

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

Financial Instruments ("IFRS 9")

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

IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company is currently assessing the impact of this change and other impacts of adopting this standard on its results of operations, financial position, and disclosures.

Leases ("IFRS 16")

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

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

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

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	April 1, 2017	April 2, 2016
Cash	63,872	102,862
Restricted cash	1,343	3,460
Cash equivalents	65,223	110,166
Cash and cash equivalents	**130,438**	216,488

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

As at April 1, 2017, the Company held $100.0 million of short-term investments (April 2, 2016 – no such investments). Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than 365 days from the date of acquisition. These investments are non-redeemable until the maturity date, and therefore they are classified separately from cash and cash equivalents.

7. INVENTORIES

The cost of inventories recognized as an expense was $571.9 million in fiscal 2017 (2016 – $561.5 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 $9.0 million in fiscal 2017 (2016 – $10.1 million), and there were no reversals of inventory write-downs that were recognized in fiscal 2017 (2016 – nil). The amount of inventory with net realizable value equal to cost was $2.8 million as at April 1, 2017 (April 2, 2016 – $1.5 million).

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative financial instruments consist of foreign exchange forward contracts. These contracts were entered into in order to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases, and have been designated as cash flow hedges for accounting purposes. The fair value of a foreign exchange forward contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

During the fiscal year ended April 1, 2017, the Company entered into forward contracts with total notional amounts of C$173.4 million to buy U.S. dollars and sell Canadian dollars. As at April 1, 2017, the Company had remaining forward contracts in place representing a total notional amount of C$70.3 million (April 2, 2016 – no forward contracts). These contracts extend over a period not exceeding 12 months.

The total fair value of the forward contracts as at April 1, 2017 resulted in an unrealized net gain of $0.3 million (April 2, 2016 – no forward contracts) recognized as other comprehensive income. The carrying value of the derivative financial instruments is equivalent to the pre-tax unrealized gain at period end.

During the fiscal year ended April 1, 2017, net gains of $1.2 million from settled contracts (April 2, 2016 – nil) were reclassified from other comprehensive income to inventory and expenses. Reclassified amounts resulting from hedge ineffectiveness were immaterial for the period ended April 1, 2017 (April 2, 2016 – nil).

9. 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 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
Additions	9,596	3,123	7,859	–	20,578
Transfers/reclassifications	–	(1,032)	997	–	(35)
Disposals	(28)	(17)	(1)	(465)	(511)
Assets with zero net book value	(4,950)	(2,038)	(6,931)	–	(13,919)
Transferred to assets held for sale	(914)	(2)	(501)	–	(1,417)
Balance, April 1, 2017	**71,844**	**12,161**	**55,394**	**136**	**139,535**
Accumulated depreciation and impairment					
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
Depreciation	6,867	2,182	7,502	61	16,612
Transfers/reclassifications	–	–	–	–	–
Disposals	(22)	(3)	(1)	(465)	(491)
Net impairment losses (reversals)	(384)	(4)	(575)	–	(963)
Assets with zero net book value	(4,950)	(2,038)	(6,931)	–	(13,919)
Transferred to assets held for sale	(430)	(1)	(217)	–	(648)
Balance, April 1, 2017	**35,874**	**5,829**	**32,621**	**133**	**74,457**
Net carrying amount					
April 2, 2016	33,347	6,434	21,128	64	60,973
April 1, 2017	**35,970**	**6,332**	**22,773**	**3**	**65,078**

Property, plant and equipment are assessed for impairment at the CGU level, except for those assets which 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 management'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% (2016 – 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 16.9% (2016 – 19.7%).

Impairment and reversal indicators were identified during fiscal 2017 for certain retail stores. Accordingly, the Company performed testing, which resulted in the reversal of impairment losses for certain Indigo retail stores. There were $1.0 million of property, plant, and equipment impairment reversals recognized in fiscal 2017 (2016 – $2.3 million). The Company did not recognize any impairments in fiscal 2017 (2016 – $0.6 million resulting from a store closure). Impairment reversals in both years 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 $7.4 million (2016 – $16.3 million) and was determined using each CGU's value in use. All impairments and reversals are recorded as part of operating, selling, and administrative expenses in the consolidated statements of earnings and comprehensive earnings.

10. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Total
Gross carrying amount				
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
Additions	6,791	3,263	–	10,054
Transfers/reclassifications	35	–	–	35
Disposals	(2,023)	(814)	–	(2,837)
Assets with zero net book value	(5,733)	(4,023)	–	(9,756)
Balance, April 1, 2017	**16,887**	**11,846**	**75**	**28,808**
Accumulated amortization and impairment				
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
Amortization	4,568	4,005	–	8,573
Disposals	(1)	(86)	–	(87)
Assets with zero net book value	(5,733)	(4,023)	–	(9,756)
Balance, April 1, 2017	**7,354**	**6,182**	**–**	**13,536**
Net carrying amount				
April 2, 2016	9,297	7,134	75	16,506
April 1, 2017	**9,533**	**5,664**	**75**	**15,272**

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 2017 for Indigo's retail stores. Accordingly, the Company performed impairment and reversal testing but there were no intangible asset impairment losses or reversals for retail stores in fiscal 2017 (2016 – no impairment losses or reversals). All impairments and reversals are recorded as part of operating, selling, and administrative expenses in the consolidated statements of earnings and comprehensive earnings.

The Company also identified specific projects that did not achieve expected results during the year and reviewed assets capitalized as part of these projects to determine whether they continued to meet the criteria for capitalization. As a result, the Company recorded $2.8 million of intangible asset disposals for derecognized project assets in fiscal 2017.

11. ASSETS HELD FOR SALE

On February 17, 2017, the Company formalized a Letter of Intent with Starbucks Coffee Canada Inc. ("Starbucks") whereby, among other things, the Company and Starbucks mutually agreed to terminate the Company's license to operate Starbucks-branded cafes within 11 retail locations.

Based on the terms of the Letter of Intent, the Company agreed to transfer to Starbucks the café inventories and capital assets from the terminated licensed locations, and the Company classified these inventories and capital assets as assets held for sale. Subsequent to the transfer, the Company will sublease space in each of the previously licensed locations for Starbucks to operate corporate-run cafes, similar to the 72 other Starbucks-branded cafes Starbucks operates in the Company's retail locations. The transfer and subsequent subleasing were completed on May 1, 2017.

12. 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 1, 2017, the Company has recorded $44.0 million in gross value of deferred tax assets based on management's best estimate of future taxable income that the Company expected to achieve (April 2, 2016 – $51.8 million gross value of deferred tax assets).

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 1, 2017	April 2, 2016
Reserves and allowances	**1,300**	1,938
Tax loss carryforwards	**22,243**	23,597
Corporate minimum tax	**2,871**	2,511
Book amortization in excess of cumulative eligible capital deduction	**214**	217
Book amortization in excess of capital cost allowance	**17,353**	23,573
Total deferred tax assets	**43,981**	51,836

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

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Current income tax expense	360	–
Adjustment for prior periods	(25)	(50)
	335	(50)
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	6,119	6,586
Change in valuation allowance	–	(12,432)
Deferred income tax expense relating to utilization of loss carryforwards	1,649	–
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	38	(134)
Other, net	(22)	–
	7,784	(6,431)
Total income tax expense (recovery)	8,119	(6,481)

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

(thousands of Canadian dollars)	52-week period ended April 1, 2017	%	53-week period ended April 2, 2016	%
Earnings before income taxes	29,037		22,100	
Tax at combined federal and provincial tax rates	7,771	26.8%	5,885	26.6%
Tax effect of expenses not deductible for income tax purposes	587	2.0%	793	3.6%
Decrease in valuation allowance	–	0.0%	(12,432)	(56.3%)
Adjustment to deferred tax assets resulting from increase in substantively enacted tax rate	–	0.0%	(451)	(2.0%)
Change in tax rates due to change in expected pattern of reversal	38	0.1%	(134)	(0.6%)
Other, net	(277)	(1.0%)	(142)	(0.6%)
	8,119	27.9%	(6,481)	(29.3%)

As at April 1, 2017, the Company has combined non-capital loss carryforwards of approximately $83.2 million for income tax purposes that expire in 2031 if not utilized.

13. PROVISIONS

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

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Balance, beginning of period	143	1,023
Charged	85	33
Utilized / released	(67)	(913)
Balance, end of period	161	143

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 fluctuate depending on the outcomes when claims are settled.

14. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at April 1, 2017, the Company had operating lease commitments in respect of its stores, support office premises, and certain equipment. The Company also had operating lease commitments related to the future relocation of its corporate home office. The leases expire at various dates between calendar 2017 and 2033, 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 $5.5 million from these subleases.

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)	Total
2018	57.7
2019	45.0
2020	28.8
2021	20.2
2022	14.7
Thereafter	60.2
Total obligations	226.6

(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 1, 2017 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.

15. SHARE CAPITAL

Share capital consists of the following:

Authorized

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

Unlimited common shares, voting

	52-week period ended April 1, 2017		53-week period ended April 2, 2016	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	25,797,351	209,318	25,495,289	205,871
Issued during the period				
Directors' deferred share units converted	67,108	670	29,142	291
Options exercised	487,025	5,983	272,920	3,156
Balance, end of period	26,351,484	215,971	25,797,351	209,318

16. 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 1, 2017 is 3,452,723. 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 2017, the pre-forfeiture fair value of options granted was $2.8 million (2016 – $1.4 million). The weighted average fair value of options issued in fiscal 2017 was $4.19 per option (2016 – $2.35 per option).

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

	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Black-Scholes option pricing assumptions		
Risk-free interest rate	0.6%	0.5%
Expected volatility	33.8%	32.7%
Expected time until exercise	3.0 years	3.0 years
Expected dividend yield	–	–
Other assumptions		
Forfeiture rate	27.3%	28.4%

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

	52-week period ended April 1, 2017		53-week period ended April 2, 2016	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	1,751,800	10.07	1,561,150	9.94
Granted	657,000	17.94	597,500	10.34
Forfeited	(257,850)	13.50	(133,930)	10.36
Exercised	(487,025)	10.20	(272,920)	9.79
Outstanding options, end of period	1,663,925	12.60	1,751,800	10.07
Options exercisable, end of period	734,900	9.68	651,550	9.59

A summary of options outstanding and exercisable is presented below:

	April 1, 2017				
	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 – 9.41	322,500	8.30	1.3	322,500	8.30
9.42 – 10.28	306,050	10.09	3.4	75,050	10.09
10.29 – 10.77	343,375	10.56	1.9	258,400	10.59
10.78 – 17.38	172,000	12.92	3.2	78,950	11.91
17.39 – 18.00	520,000	18.00	4.4	–	–
8.00 – 18.00	1,663,925	12.60	3.0	734,900	9.68

Directors' Compensation

The Company has established a Directors' Deferred Share Unit Plan ("DSU Plan"). Under the DSU Plan, Directors annually elect whether to receive their annual retainer fees and other Board-related compensation in the form of deferred share units ("DSUs") or receive up to 50% of this compensation in cash. All fiscal 2017 Directors' compensation was in the form of DSUs (2016 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. The Company issued 21,788 DSUs with a value of $0.4 million during fiscal 2017 (2016 – 32,175 DSUs with a value of $0.4 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 1, 2017 was $3.5 million (April 2, 2016 – $3.8 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.

17. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Print[1]	598,107	615,410
General merchandise[2]	384,097	343,488
eReading[3]	12,510	14,452
Other[4]	25,131	20,831
Total	1,019,845	994,181

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

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Wages, salaries, and bonuses	180,893	178,147
Short-term benefits expense	19,444	19,897
Termination benefits expense	2,922	6,559
Retirement benefits expense	1,575	1,418
Share-based compensation	1,400	1,212
Total employee benefits expense	206,234	207,233

Termination benefits arise when the Company terminates certain employment agreements.

Minimum lease payments recognized as an expense during fiscal 2017 were $60.4 million (2016 – $55.9 million). Contingent rents recognized as an expense during fiscal 2017 were $1.6 million (2016 – $1.6 million).

18. EARNINGS PER SHARE

Earnings per share is calculated based on the weighted average number of common shares outstanding during the period. In calculating diluted earnings per share amounts under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options and DSUs do not result in 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)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Weighted average number of common shares outstanding, basic	26,385	25,949
Effect of dilutive securities – stock options	566	212
Weighted average number of common shares outstanding, diluted	26,951	26,161

As at April 1, 2017, 552,000 (April 2, 2016 – 672,500) anti-dilutive stock options were excluded from the computation of diluted net earnings per common share.

19. STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Accounts receivable	215	(2,767)
Inventories	(13,788)	(9,393)
Income taxes recoverable	(26)	(50)
Prepaid expenses	(416)	(5,813)
Accounts payable and accrued liabilities (current and long-term)	(2,606)	11,109
Unredeemed gift card liability	(573)	2,758
Provisions (current and long-term)	18	(880)
Income taxes payable	360	–
Deferred revenue	(380)	(66)
Net change in non-cash working capital balances	**(17,196)**	(5,102)

20. 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.

There were no changes to these objectives during the year. The primary activities engaged by the Company to generate attractive returns for shareholders include transforming physical and digital platforms and driving productivity improvement through investments in information technology and distribution to support the Company's sales networks. The Company's main sources of capital are its current cash position, short-term investments, 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.

21. FINANCIAL RISK MANAGEMENT

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

Foreign Exchange Risk

The Company's foreign exchange risk 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. In particular, a significant amount of the Company's general merchandise inventory purchases is denominated in U.S. dollars. The Company also has a New York office that incurs U.S. dollar expenses.

The Company uses derivative instruments in the form of forward contracts to manage its exposure to fluctuations in U.S. dollar exchange rates. As the Company has hedged a significant portion of the cost of its near-term forecasted U.S. dollar purchases, a change in foreign currency rates will not impact that portion of the cost of those purchases.

In fiscal 2017, the effect of foreign currency translation on net earnings was a gain of $0.2 million (2016 – gain of $0.6 million).

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on the Company's cash, cash equivalents, and short-term investments. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk. The Company does not currently have any debt.

Credit Risk

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments. Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Accounts receivable primarily consist 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 are closely monitored.

The Company limits its exposure to counterparty credit risk related to cash and cash equivalents, short-term investments, and derivative financial instruments by transacting only with highly-rated financial institutions and other counterparties, and by managing within specific limits for credit exposure and term to maturity. The Company's maximum credit risk exposure if all counterparties default concurrently is equivalent to the carrying amounts of accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments.

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 1, 2017 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	141,622	28,989	–	170,611
Unredeemed gift card liability	50,396	–	–	50,396
Provisions	7	103	–	110
Long-term accrued liabilities	–	–	2,378	2,378
Long-term provisions	–	–	51	51
Total	192,025	29,092	2,429	223,546

22. 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 2017, the Company received $1.2 million (2016 – $0.7 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 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Cash and cash equivalents	2,576	3,969	1,288	1,985
Total current assets	5,833	9,713	2,917	4,857
Total long-term assets	363	483	181	242
Total current liabilities	2,596	7,353	1,298	3,677

	Total		Company's share	
(thousands of Canadian dollars)	52-week period ended April 1, 2017	53-week period ended April 2, 2016	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Revenue	38,858	36,200	19,429	18,100
Expenses	(35,438)	(33,166)	(17,719)	(16,583)
Depreciation	(187)	(239)	(93)	(120)
Net earnings	3,233	2,795	1,617	1,397

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

(thousands of Canadian dollars)	Carrying value
Balance, March 28, 2015	726
Equity income from Calendar Club	1,397
Distributions from Calendar Club	(702)
Balance, April 2, 2016	1,421
Equity income from Calendar Club	1,617
Distributions from Calendar Club	(1,238)
Balance, April 1, 2017	1,800

23. 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)	52-week period ended April 1, 2017	53-week period ended April 2, 2016
Wages, salaries, and bonus	7,733	7,529
Short-term benefits expense	233	230
Termination benefits expense	424	454
Retirement benefits expense	61	69
Share-based compensation	833	675
Directors' compensation	367	384
Total remuneration	9,651	9,341

Transactions with Shareholders

During fiscal 2017, 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 2017, the Company paid $6.0 million for these transactions (2016 – $4.5 million). As at April 1, 2017, Indigo had less than $0.1 million payable to these companies under standard payment terms and $1.0 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (April 2, 2016 – $0.1 million payable and $2.8 million restricted cash). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

Transactions with Defined Contribution Retirement Plan

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 17. 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. In fiscal 2017, Indigo loaned $11.6 million to Calendar Club (2016 – $11.1 million). All loans were repaid in full as at April 1, 2017.

Corporate Governance Policies

A presentation of the Company'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

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

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

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

Scott Formby
Chief Creative Officer

R. Craig Loudon
Interim Chief Financial Officer

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

Hugues Simard
Executive Vice President and Chief Financial Officer (effective June 1, 2017)

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, US Consumer Marketing Services
American Express

Robert Haft
Managing Partner
Morgan Noble Healthcare

Andrea Johnson
Principal
Envelo Properties Corp.

Michael Kirby
Corporate Director
Chair of Partners for Mental Health

Anne Marie O'Donovan
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
President and Chief Executive Officer
David's Tea Inc.

Five-Year Summary of Financial Information

For the years ended (millions of Canadian dollars, except share and per share data)	April 1, 2017	April 2, 2016	March 28, 2015	March 29, 2014	March 30, 2013
SELECTED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	702.1	695.3	625.2	607.2	615.2
Small format stores	140.7	140.2	127.8	127.4	137.6
Online	148.2	133.3	114.0	102.0	91.9
Other	28.8	25.4	28.4	31.1	34.1
Total revenue	1,019.8	994.2	895.4	867.7	878.8
Adjusted EBITDA[1,2]	52.2	43.1	20.5	0.1	28.5
Earnings (loss) before income taxes	29.0	22.1	(3.2)	(26.9)	4.2
Net earnings (loss)	20.9	28.6	(3.5)	(31.0)	4.3
Dividends per share	–	–	–	$ 0.33	$ 0.44
Net earnings (loss) per common share	$ 0.79	$ 1.10	$(0.14)	$(1.21)	$ 0.17
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	248.1	217.9	198.7	189.7	224.3
Total assets	608.6	584.0	538.4	512.6	569.1
Long-term debt (including current portion)	–	0.1	0.2	0.8	1.5
Total equity	371.8	344.0	311.1	311.7	350.3
Weighted average number of shares outstanding	26,384,775	25,949,068	25,722,640	25,601,260	25,529,035
Common shares outstanding at end of period	26,351,484	25,797,351	25,495,289	25,298,239	25,297,389
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	89	88	91	95	97
Small format stores	123	123	127	131	134
Selling square footage at end of period (in thousands)					
Superstores	1,953	1,925	2,019	2,163	2,199
Small format stores	304	305	311	321	329
Comparable sales growth[2]					
Total retail and online	4.1%	12.9%	6.5%	(0.3%)	(3.7%)
Superstores	2.9%	12.8%	6.8%	(0.9%)	(4.6%)
Small format stores	0.9%	10.9%	0.8%	(5.0%)	(2.4%)
Sales per selling square foot					
Superstores	360	361	310	281	280
Small format stores	463	460	411	397	418

1 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment.
2 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

IDG

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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 17, 2017 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 leadership, its customers, its 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 committed over $25 million in more than 3,000 high-needs schools, impacting over 900,000 children. The Foundation runs two signature programs each year. In May 2017, the Indigo Love of Reading Literacy Fund grant provided transformational support of $1.5 million to 30 high-needs elementary schools that lack the resources to build and maintain healthy school libraries. 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 October 2016, Indigo Adopt a School contributed over $800,000 to more than 500 schools.

On May 17, 2017, the Foundation released *Read Between the Lines*, a documentary commissioned by the Foundation to raise awareness for the literacy challenges facing Canada due, in part, to the underfunding of high-needs elementary school libraries.

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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