

2018

"THE FUTURE BELONGS TO  
THOSE WHO BELIEVE IN THE  
BEAUTY OF THEIR DREAMS."

— ELEANOR ROOSEVELT

ANNUAL REPORT  
FOR THE 52-WEEK PERIOD  
ENDED MARCH 31, 2018

## 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*, *Indigospirit*, *The Book Company*, and *indigo.ca*. The Company employs approximately 7,000 people across the country.

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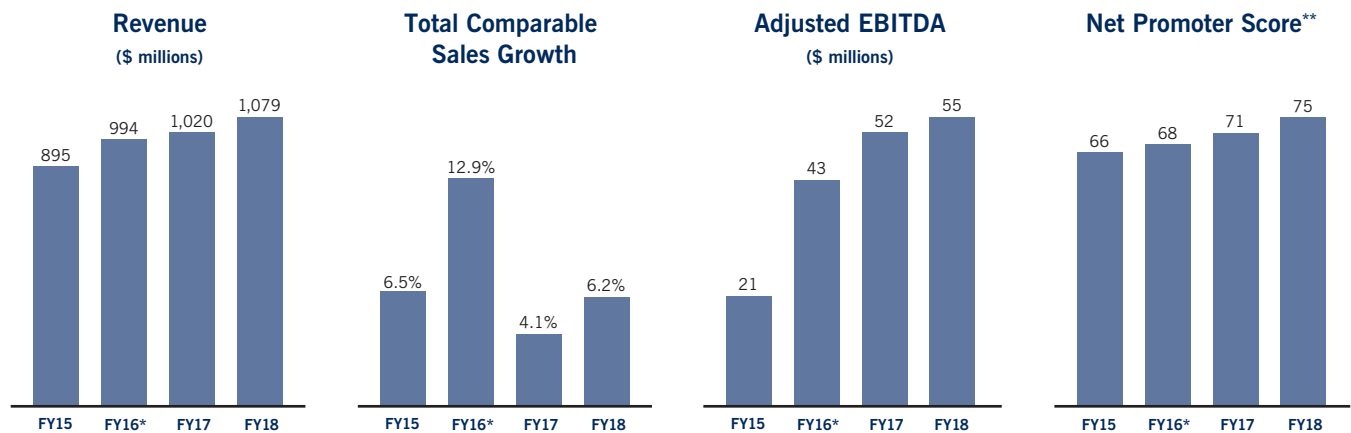
# Report of the CEO

Dear Shareholder,

It is my pleasure to once again be writing to you to share results on our business.

2018 was a good year for Indigo. In the face of an environment all would agree is very demanding for the retail industry, your Company posted respectable results while continuing to invest for growth.

Highlights of the year are noted below:



\* 2016 includes a 53rd week

\*\* Net Promoter Score as defined by Opinion Lab

As I write this letter, we are embarking on the most ambitious capital investment plan in our history.

A big part of this investment will go into our network of large format stores. In addition to being well used – and well loved – the overall changing dynamics in our industry propel us to re-imagine our customer experience.

Over the last two years, we refined and tested a new model in ten Indigo stores. The response from customers has been overwhelmingly positive, confirming that the investment we have tagged for this program will provide a very meaningful return.

In parallel, we will continue to invest in both our supply chain capability and our digital assets toward our aim of providing customers the ability to shop and interact with us seamlessly and joyfully both in stores and online. Among the things on our digital road map that will be implemented this year are many initiatives that modernize and advance the checkout and fulfillment experiences for our customers.

I might mention here, that as part of our continuing effort to improve service to our customers both in store and online, this past year we expanded our supply chain with a major new facility in Calgary.

The changing nature of the retail industry is much in the news. As customers, our service and experience expectations continue to rise and the choices offered to us are endless. The pressure this places on any brand is significant. What animates Indigo, and continues to connect us with our customers, is our position as a place for people to connect, to get inspired, to be indulged. It is this position that is our north star.

Indigo is fortunate to have the most passionate and engaged group of people coming to work every day. Our business is demanding. It is the energy, creativity and spirit of each and every person on our team that enables us to continue to grow. Thank you all for all you do and for the privilege of working with you.

Finally, I want to just note, as I do every year, that the Indigo Love of Reading Foundation continues to be a major part of who we are. This was the Foundation's most ambitious and most successful year to date. This year, the Foundation impacted over 600 high-needs Canadian elementary schools, helping to inspire over 200,000 children to fall in love with reading. Since inception, the Foundation has committed over \$28 million in funding to 3,000 high-needs elementary school libraries, inspiring over 900,000 Canadian children.

While the day to day is important, we recognize that we all have a responsibility to the longer term future of our country. Childhood literacy is a fundamental factor. Reaching those schools and those children who lack the resources to richly engage in reading, is our mission and our commitment.

Thank you to our shareholders. Until next year.

A handwritten signature in cursive script that reads "Heather Reisman".

**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*



Hugues Simard  
*Chief Financial Officer*

# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 29, 2018 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week periods ended March 31, 2018 and April 1, 2017. 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](http://www.sedar.com).

## Overview

Indigo is Canada's largest book, gift, and specialty toy retailer, operating stores in all ten provinces and one territory and offering online sales through the *indigo.ca* website and the Company's mobile applications. As at March 31, 2018, the Company operated 86 superstores under the banners *Chapters* and *Indigo* and 123 small format stores under the banners *Coles*, *Indigospirit*, and *The Book Company*.

As at March 31, 2018, the Company employed approximately 7,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of \$1,079.4 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 over 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 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 priorities are to drive a customer inspired retail and digital transformation, build a truly superior gifting experience, and become the best rewarding retail employer in Canada.

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

### **Drive a Customer Inspired Retail Transformation**

The Company's physical stores are being transformed as part of the roll out of Indigo's new cultural department store concept and the Company's focus on being a truly superior gifting destination. 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.

Over the past three years, the Company has rebranded and renovated several stores to improve the customer experience and product offerings across key gifting categories. The Company accelerated its transformation by renovating five superstores and four small format stores in fiscal 2018 and will continue these efforts in fiscal 2019. In an effort to better integrate the physical and digital platforms, the Company successfully tested a mobile checkout solution in fiscal 2018 and will continue to roll this out in fiscal 2019. The Company also continues to explore opportunities both within Canada and globally, and in fiscal 2018 signed its first lease for a retail store in the United States, with the location in Short Hills, New Jersey scheduled for opening in fiscal 2019.

### **Drive a Customer Inspired Enhanced Digital Platform**

In addition to reshaping Indigo's physical store offerings, the Company continues to invest heavily in its digital platforms. The Company has 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 250,000 on Instagram. The Company launched a dedicated IndigoKids® Facebook page in fiscal 2016 and a dedicated IndigoBaby® Instagram in fiscal 2017. In fiscal 2018, the Company focused on several enhancements to improve and simplify the customer experience on all its digital platforms. Notably, *indigo.ca* is now responsive, with the site's pages efficiently rendering on a variety of devices and window or screen sizes, providing a seamless experience on all platforms.

Optimizing the Company's plum rewards loyalty program has also been a key area of focus in the past three years. 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 continue to increase its capabilities to utilize this data to personalize each touchpoint with customers across all channels and provide a rich omni-channel shopping experience.

### **Build a Truly Superior Gifting Experience**

Indigo is committed to becoming the ultimate year-round gifting destination in Canada for gifts that touch the heart and soul. The gifting experience for the major seasonal holidays and for everyday gifting occasions are supported through the Company's expanded assortment of books, lifestyle and baby offerings, and toys. Indigo's focus on making gifting joyful and easy for customers includes a wide selection of gift wrap and greeting cards, as well as tools to help customers make the best gifting decisions. In fiscal 2018, "The Gift Shop", an expanded online gifting experience, was launched on Indigo's digital channels, creating an interactive and curated shopping experience with functionalities to view gift ideas in multiple ways, including by gifting occasion or by recipient.

The enhanced gifting assortment is supported by the Company's design and global sourcing team in New York that 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, as well as 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 giftable merchandise only available at Indigo.



## **Become the Best Rewarding Retail Employer in Canada**

While a key focus of the Company's business is evolving to meet the emerging needs of customers, Indigo is also focused on becoming the best rewarding retail employer in Canada by driving a high performance, growth culture and aspiring for operational excellence to support the Company's continued evolution and new business strategies.

The Company's ambition is to be best rewarding, not only in pay, but in a holistic view of the employment relationship that includes a sense of purpose, meaningful relationships, benefits and flexible work opportunities. This Company-wide initiative focuses on driving engagement, high performance and operational excellence while removing inefficiency from the Company's work processes. There are several initiatives underway across the Company including reinforcing Indigo's unique culture through values-based leadership. As well, the Company is focusing on the development of high-performing teams where individuals are encouraged to chart their own career paths and apply their strengths to meaningful work, allowing them to bring their best selves to work.

In fiscal 2018, Indigo again reached record-high employee engagement and customer satisfaction scores with scores of 90% and 75% respectively. Indigo's employee engagement and customer focus was recognized outside of the Company, being named the top Canadian retail employer brand, and fourth overall Canadian employer brand, according to the annual award given by Randstad Canada, a staffing, recruitment, and human resources 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.

Recently, Indigo was also voted one of the best companies to work for in Ontario by Indeed, a leading search engine for job listings. The Company's products, culture, customer-orientation and employee communication was noted as rationale for ranking fourth overall.

In aspiring for operational excellence, 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 2016, the Company re-engineered its highly cross-functional promotions process. In fiscal 2017, the Company focused on implementing supply chain productivity initiatives designed to deliver improved operating margins and improve service to customers. In fiscal 2018, the Company expanded its online distribution centre and acquired a new facility in Western Canada to support its growth and to improve service levels to customers nationally, especially during the Company's peak third quarter holiday period. 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.

## **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 Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the audited consolidated financial statements for the 52-week periods ended March 31, 2018 and April 1, 2017.

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 March 31, 2018	% Revenue	52-week period ended April 1, 2017	% Revenue
Revenue	1,079.4	100.0	1,019.8	100.0
Cost of sales	(604.1)	56.0	(565.6)	55.5
Cost of operations	(312.8)	29.0	(299.4)	29.4
Selling, administrative, and other expenses	(107.5)	10.0	(102.6)	10.1
<b>Adjusted EBITDA<sup>1</sup></b>	<b>55.0</b>	<b>5.1</b>	52.2	5.1
Amortization and other related capital charges	(28.5)	(2.6)	(27.0)	(2.6)
Net interest income	3.0	0.3	2.2	0.2
Earnings from equity investments	1.0	0.0	1.6	0.2
<b>Earnings before income taxes</b>	<b>30.5</b>	<b>2.8</b>	29.0	2.8

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

Adjusted EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results and is commonly used by financial analysts and investors to assess performance. This measure is specific to Indigo and has no standardized meaning prescribed by IFRS. Therefore, adjusted EBITDA may not be comparable to similar measures presented by other companies. Earnings before income taxes, the most directly comparable measure determined under IFRS, is presented above for informational purposes.

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 March 31, 2018	52-week period ended April 1, 2017	53-week period ended April 2, 2016
<b>Revenue</b>			
Superstores	728.6	702.1	695.3
Small format stores	143.6	140.7	140.2
Online	176.8	148.2	133.3
Other	30.4	28.8	25.4
	<b>1,079.4</b>	1,019.8	994.2
Earnings before income taxes	30.5	29.0	22.1
Income tax recovery (expense)	(8.7)	(8.1)	6.5
Net earnings	21.8	20.9	28.6
Total assets	633.6	608.6	584.0
Long-term debt (including current portion)	–	–	0.1
Working capital	257.0	248.1	217.9
Basic earnings per share	\$0.81	\$0.79	\$1.10
Diluted earnings per share	\$0.80	\$0.78	\$1.09

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

	52-week period ended March 31, 2018	52-week period ended April 1, 2017	53-week period ended April 2, 2016
<b>Comparable Sales Growth<sup>1</sup></b>			
Total retail and online	<b>6.2%</b>	4.1%	12.9%
Superstores	<b>4.0%</b>	2.9%	12.8%
Small format stores	<b>2.4%</b>	0.9%	10.9%
<b>Stores Opened</b>			
Superstores	–	1	–
Small format stores	<b>1</b>	1	1
	<b>1</b>	2	1
<b>Stores Closed</b>			
Superstores	<b>3</b>	–	3
Small format stores	<b>1</b>	1	5
	<b>4</b>	1	8
<b>Number of Stores Open at Year-End</b>			
Superstores	<b>86</b>	89	88
Small format stores	<b>123</b>	123	123
	<b>209</b>	212	211
<b>Selling Square Footage at Year-End</b> (in thousands)			
Superstores	<b>1,887</b>	1,953	1,925
Small format stores	<b>308</b>	304	305
	<b>2,195</b>	2,257	2,230

1 See “Non-IFRS Financial Measures”.

## Revenue

Total consolidated revenue for the 52-week period ended March 31, 2018 increased \$59.6 million or 5.8% to \$1,079.4 million from \$1,019.8 million for the 52-week period ended April 1, 2017. Higher revenue was driven by continued double-digit growth in general merchandise, most significantly in lifestyle and toys. The toy business benefited from the popularity of collectibles within the industry, while lifestyle grew due to strengthened seasonal assortments throughout the period. Print sales experienced a slight decline as the Company was cycling over the blockbuster release of *Harry Potter and the Cursed Child* in fiscal 2017.

Total comparable sales, which includes online sales, increased by 6.2% for the year. Total comparable sales is based on comparable retail store sales and includes online sales for the same period. Comparable retail store sales are based on a 52-week fiscal year and defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, permanent relocation, and material changes in square footage. Both measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Comparable retail superstore sales for the year increased 4.0%, while small format stores increased 2.4%. The increase was mainly driven by the reasons discussed above. During the 52-week period ended March 31, 2018, the Company rebranded or relocated five superstores, and four small format stores. In the same period, the Company closed one small format store and three superstores.

Online revenue increased by \$28.6 million or 19.3% to \$176.8 million for the 52-week period ended March 31, 2018 compared to \$148.2 million in the same period last year. Online sales continued to grow across all categories, in both print and general merchandise, with highly successful promotional campaigns, such as Black Friday, driving a meaningful increase in e-commerce traffic and average order value.

Revenue from other sources includes café revenue, irewards card sales, revenue from unredeemed gift cards (“gift card breakage”), revenue from unredeemed plum points (“plum breakage”), corporate sales, and revenue-sharing with Rakuten Kobo Inc. (“Kobo”). Revenue from other sources increased \$1.6 million or 5.6% to \$30.4 million for the 52-week period ended March 31, 2018 compared to \$28.8 million last year as higher gift card and plum breakage was partially offset by lower café revenue.

Management reviewed its accounting estimates related to the calculation of gift card and plum breakage and adjusted accordingly to reflect changes in customer redemption patterns and historical amendments to the program structure. The impact of this change in estimate for the 52-week period ended March 31, 2018 was \$7.5 million and \$4.4 million respectively, and has been accounted for prospectively as a change in accounting estimate. Management will continue to monitor redemption activity and will adjust for changes as observed. This increase was partially offset by a \$8.7 million decrease in café revenue due to the termination of the Company’s license to operate Starbucks-branded cafés within certain retail locations. The Company now subleases space to Starbucks in each of the previously licensed locations for Starbucks to operate corporate-run cafés in the Company’s retail locations.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017	% increase	Comparable sales % increase
Superstores	728.6	702.1	3.8	4.0
Small format stores	143.6	140.7	2.1	2.4
Online (including store kiosks)	176.8	148.2	19.3	19.3
Other	30.4	28.8	5.6	N/A
<b>Total</b>	<b>1,079.4</b>	<b>1,019.8</b>	<b>5.8</b>	<b>6.2</b>

Revenue by product line is as follows:

	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Print <sup>1</sup>	55.0%	58.6%
General merchandise <sup>2</sup>	41.6%	37.7%
eReading <sup>3</sup>	0.9%	1.2%
Other <sup>4</sup>	2.5%	2.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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

2 Includes lifestyle, paper, toys, 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 March 31, 2018	52-week period ended April 1, 2017
Total retail store revenue	872.2	842.8
Total online revenue	176.8	148.2
Adjustments for stores not in both fiscal periods	(24.3)	(25.6)
<b>Total comparable sales</b>	<b>1,024.7</b>	<b>965.4</b>

(millions of Canadian dollars)	Superstores		Small format stores	
	52-week period ended March 31, 2018	52-week period ended April 1, 2017	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Total revenue by format	728.6	702.1	143.6	140.7
Adjustments for stores not in both fiscal periods	(19.1)	(20.1)	(5.2)	(5.5)
<b>Comparable retail store sales</b>	<b>709.5</b>	<b>682.0</b>	<b>138.4</b>	<b>135.2</b>

### 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 by \$38.5 million to \$604.1 million for the 52-week period ended March 31, 2018 compared to \$565.6 million last year. As a percent of total revenue, cost of sales increased 0.5% to 56.0% compared to 55.5% last year. This rate increase was primarily driven by higher penetration of lower margin online sales and higher discounting driven by increased markdowns on slow-moving holiday products. Improvements in the Company's online fulfillment capabilities in the current year allowed for more competitive promotional campaigns in the Online channel, resulting in downward pressure on margin. The downward pressure on margin was partly offset by the previously discussed one-time plum and gift card breakage.

### Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by \$13.4 million to \$312.8 million for the 52-week period ended March 31, 2018 compared to \$299.4 million last year. As a percent of total revenue, cost of operations decreased by 0.4% to 29.0%, compared to 29.4% last year.

The increase in operating costs was primarily driven by higher distribution centre costs of \$10.6 million, as a result of higher sales volumes and an additional \$1.8 million in expenses related to the Company's expansion of its Ontario online distribution centre and its new Western Canada distribution centre. Online operating expenses increased \$3.9 million, as variable selling expenses grew in line with sales volumes and as the Company's online merchant and digital teams expanded to support continued growth. This was partially offset by a \$1.0 million decrease in store-level operating costs. This decrease was caused by lower café expenses as a result of the previously discussed termination of the Company's license to operate Starbucks-branded cafés within certain retail locations.

### 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 increased \$4.9 million to \$107.5 million for the 52-week period ended March 31, 2018 compared to \$102.6 million last year. As a percent of total revenue, selling, administrative, and other expenses decreased 0.1% to 10.0% compared to 10.1% last year.

Higher expenses in the current year were driven by increased investment in creative, construction and other head office areas to support sales growth and the transformation of retail and digital platforms. The prior year non-recurring proceeds associated with a reconciliation of café charges further contributed to the unfavourable year-over-year variance.

### **Adjusted EBITDA**

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment increased \$2.8 million to \$55.0 million for the 52-week period ended March 31, 2018 compared to \$52.2 million last year. Adjusted EBITDA as a percent of revenue remained flat at 5.1%. Adjusted EBITDA was impacted by top-line growth, offset by a decline in margin rate and increased operating costs, as a result of higher sales volumes and increased selling, administrative and other expenses to support strategic areas. A change in accounting estimates for breakage also contributed to adjusted EBITDA improvement. 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 March 31, 2018 increased by \$1.8 million to \$27.0 million compared to \$25.2 million last year. The increase in amortization was driven by increasing levels of capital asset additions in the recent years.

Capital expenditures in fiscal 2018 totaled \$54.0 million compared to \$30.6 million last year. Capital expenditure increases in the current year were driven by continued implementation of changes across Indigo’s retail outlets, including full renovations and rebranding of stores, investments in digital, and investments in back-end productivity initiatives. Capital expenditures for fiscal 2018 included \$30.6 million for retail store renovations and equipment, \$6.4 million for technology equipment, and \$16.9 million primarily for application software and internal development costs, which are classified as intangible assets. None of the capital expenditures were financed through leases.

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, no impairment and reversal were required, compared to net capital asset impairment reversals of \$1.0 million last year. Impairment reversals in the prior year were driven by improved store performance and the likelihood of lease term renewals. All impairment reversals and losses were spread across a number of CGUs at the store level. 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.

### **Net Interest Income**

The Company recognized net interest income of \$3.0 million for the 52-week period ended March 31, 2018, compared to \$2.2 million last year. The Company nets interest income against interest expense. Compared to last year, the Company generated more interest income by maintaining a cash balance in short-term investments that earn higher interest rates.

### **Earnings from Equity Investments**

The Company uses the equity method to account for its investments in Calendar Club and Unplug Meditation LLC (“Unplug”), a U.S. meditation studio, which the Company invested in during the first quarter of fiscal 2018, resulting in a 20% voting interest and representation on the board of managers. The Company recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses. The Company recognized a net gain from Calendar Club of \$1.0 million for the 52-week period ended March 31, 2018, compared to net earnings of \$1.6 million for the same period last year. Earnings from Unplug were immaterial for the 52-week period ended March 31, 2018.

## Income Taxes

The Company recognized a primarily non-cash income tax expense of \$8.7 million for the 52-week period ended March 31, 2018, compared to recognizing a primarily non-cash income tax expense of \$8.1 million last year. Income tax expense in the current year primarily relates to a decrease in deferred tax assets. The Company's current year effective tax rate was 28.5% compared to 27.9% last year.

## Net Earnings

The Company recognized net earnings of \$21.8 million for the 52-week period ended March 31, 2018 (\$0.81 net earnings per common share), compared to net earnings of \$20.9 million (\$0.79 net earnings per common share) last year. The increase in net earnings was primarily driven by top-line growth, partially offset by a decline in margin rate and increased operating costs, as a result of higher sales volumes and other expenses to support strategic areas. Additionally, net earnings were unfavourably impacted by higher amortization, lower earnings from equity investments and higher non-cash income tax expense.

## Other Comprehensive Income

Other comprehensive income consists primarily of gains and losses related to hedge accounting. The Company has a formal hedging policy to mitigate foreign exchange risk, entering into contracts to manage the currency fluctuation risk associated with forecasted U.S. dollar expenses, primarily for general merchandise inventory purchases. Financial instruments used to mitigate risk include foreign exchange forward contracts. All contracts entered during the period have been designated as cash flow hedges for accounting purposes and extend over a period not exceeding 12 months.

During the 52-week period ended March 31, 2018, the Company entered contracts with total notional amounts of C\$137.9 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C\$173.4 million last year. As at March 31, 2018, the Company had remaining contracts in place representing a total notional amount of C\$79.2 million and an unrealized net gain of \$1.1 million, compared to a total notional amount of C\$70.3 million and an unrealized net gain of \$0.3 million as at April 1, 2017. During the 52-week period ended March 31, 2018, net losses of \$3.3 million from settled contracts were reclassified from other comprehensive income to inventory and expenses compared to reclassified net gains of \$1.2 million for the same periods last year.

## 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.

(millions of Canadian dollars, except per share data)	Fiscal quarters							
	Q4 Fiscal 2018	Q3 Fiscal 2018	Q2 Fiscal 2018	Q1 Fiscal 2018	Q4 Fiscal 2017	Q3 Fiscal 2017	Q2 Fiscal 2017	Q1 Fiscal 2017
Revenue	<b>215.3</b>	433.3	224.5	206.3	209.5	400.3	216.9	193.1
Total net earnings (loss)	<b>(10.8)</b>	42.6	(4.7)	(5.3)	(8.9)	40.0	(1.2)	(9.0)
Basic earnings (loss) per share	<b>(\$0.40)</b>	\$1.58	(\$0.18)	(\$0.20)	(\$0.33)	\$1.51	(\$0.04)	(\$0.34)
Diluted earnings (loss) per share	<b>(\$0.40)</b>	\$1.56	(\$0.18)	(\$0.20)	(\$0.33)	\$1.48	(\$0.04)	(\$0.34)

On a 13-week basis, total comparable sales, which includes online sales, increased by 6.2% in the fourth quarter. Comparable retail store sales for the same period increased 5.2% in superstores and 5.9% in small format stores. The increase in total comparable sales was primarily driven by continued general merchandise growth and strong online sales growth.

For the 13-week period ended March 31, 2018, total consolidated revenue increased by \$5.8 million to \$215.3 million compared to \$209.5 million for the 13-week period ended April 1, 2017. Retail revenue increased by \$7.4 million, or 4.5%, to \$172.9 million compared to \$165.5 million in the same quarter last year. The increase was driven by strong general merchandise sales, partly offset by a slight decline in print. Online revenue showed continued growth, increasing by \$3.4 million, or 9.6%, to \$39.0 million compared to \$35.6 million in the same quarter last year. The growth in online revenue was driven by general merchandise, particularly toys, due to the success of March Break promotions in the current period.

Net loss for the 13-week period ended March 31, 2018 was \$10.8 million compared to a loss of \$8.9 million for the 13-week period ended April 1, 2017. The improvement in revenue was offset by higher operating costs driven by the rise of the Ontario minimum wage and higher fixed costs due to expansion of the Company's distribution centres in Ontario and Alberta. Offsetting these cost increases were a reduction in capital asset disposals and higher income tax recovery. In the same period last year, the Company had \$2.8 million of capital asset disposals driven by certain capital asset derecognitions, compared to \$0.7 million this quarter. The Company also recognized a \$4.6 million net income tax recovery in the fourth quarter of fiscal 2018 compared to a \$3.1 million net income tax recovery in the same quarter last year.

## Overview of Consolidated Balance Sheets

### Assets

As at March 31, 2018, total assets increased \$25.0 million to \$633.6 million, compared to \$608.6 million as at April 1, 2017. The increase was driven by higher inventory, property plant and equipment, and intangible assets, partially offset by a decrease in short-term investments, deferred tax assets, and prepaid expenses.

The inventories increase of \$33.0 million was in line with sales growth, and enabled by the Company's investment in its online distribution facility capacity. The increase in property, plant and equipment of \$17.2 million was driven by investment in retail store renovations, distribution facilities, and digital initiatives. Intangible assets increased by \$8.9 million in the year as a result of application software and internal development costs to support strategic initiatives, and investment in the Company's e-commerce site ahead of its US expansion.

The net decrease in cash, cash equivalents and short term investments of \$20.2 million was a result of increased capital investment activities undertaken by the Company as discussed and lower cash balances generated from operating activities. Prepaid expenses decreased by \$7.6 million due to the timing of certain payments.

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

### Liabilities

As at March 31, 2018, total liabilities decreased \$4.3 million to \$232.5 million compared to \$236.8 million as at April 1, 2017. The decrease was driven by a \$6.2 million reduction in unredeemed gift card liability and a \$4.0 million reduction in deferred revenue related to plum liability, which were primarily driven by revisions of accounting estimates due to subtle changes in historic redemption patterns. This movement was partially offset by a \$5.8 million increase in current and long-term accounts payable and accrued liabilities, as a result of increased inventory volumes, bonus accruals and other store renovations costs.

### Equity

Total equity at March 31, 2018 increased \$29.3 million to \$401.1 million, compared to \$371.8 million as at April 1, 2017 primarily driven by net earnings of \$21.8 million for the current year. Share capital increased by \$5.9 million due to the exercise of stock options. Correspondingly, contributed surplus decreased due to exercise of stock options, but the decrease was offset by the issuance of new stock options.



The weighted average number of common shares outstanding for fiscal 2018 was 26,849,418 compared to 26,384,775 last year. As at May 29, 2018, the number of outstanding common shares was 26,807,803 with a book value of \$221.9 million.

### Working Capital and Leverage

The Company reported working capital of \$257.0 million as at March 31, 2018, compared to \$248.1 million as at April 1, 2017. Increased working capital compared to the same period last year was a result of both higher current assets and lower current liabilities. Notably, an increase in inventories of \$33.0 million and a decrease of gift card and plum liabilities due to changes in accounting estimate in the year was partially offset by a decrease in cash, cash equivalents and short-term investments due to investments in strategic initiatives.

The Company's leverage position (defined as Total Liabilities to Total Equity) remained consistent at 0.6:1 as at March 31, 2018 compared to 0.6:1 as at April 1, 2017.

### Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased \$19.8 million during fiscal 2018, compared to a decrease of \$86.1 million in the prior year. The increase in fiscal 2018 was driven by cash flows generated from operating activities of \$28.4 million and financing activities of \$4.9 million. This increase was partially offset by cash used for investing activities of \$12.6 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 \$28.4 million from operating activities in fiscal 2018 compared to generating \$35.6 million last year, a decrease of \$7.2 million. The decrease was driven by a reduction in cash generated from working capital. The Company used \$29.3 million of cash for working capital this year, compared to using \$17.2 million of cash for working capital last year, primarily driven by the higher inventory balance in the current year.

#### Cash Flows Used for Investing Activities

The Company used cash flows of \$12.6 million for investing activities in fiscal 2018 compared to using \$127.4 million last year, a decrease of \$114.9 million. In fiscal 2017, the Company reported \$100.0 million of non-redeemable short-term investments, of which only \$60.0 million was reinvested on maturity in fiscal 2018, generating investing cash flows of \$40.0 million. This was offset by the Company's increased spending on capital projects in the current year, which is consistent with previously discussed strategic initiatives. The Company spent \$54.0 million on capital projects this year compared to spending of \$30.6 million last year, an increase of \$23.4 million.

Cash was used for capital projects as follows:

(millions of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Construction, renovations, and equipment	30.7	17.4
Intangible assets (primarily application software and internal development costs)	16.9	10.1
Technology equipment	6.4	3.1
<b>Total</b>	<b>54.0</b>	<b>30.6</b>

#### Cash Flows from Financing Activities

The Company generated cash flows of \$4.9 million from financing activities in fiscal 2018, which was consistent with the \$4.9 million generated in the prior year. Cash flows were generated from proceeds of options exercised.

## 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	68.2	96.8	68.1	135.9	369.0

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 2019. 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, except as noted. 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 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 credits. 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 and amortized 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 2018

### **Statement of Cash Flows ("IAS 7")**

In January 2016, the IASB issued amendments to IAS 7 as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company applied this standard beginning April 2, 2017. Adopting these amendments did not have a significant impact on the Company's results of operations, financial position, or disclosures.

## New Accounting Pronouncements

### **Revenue from Contracts with Customers ("IFRS 15")**

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

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

Implementation of IFRS 15 is expected to impact the allocation of deferred plum program revenue. Revenue is currently allocated to plum points using the residual fair value method. Under IFRS 15, revenue will be allocated based on relative standalone selling prices between plum points and the goods on which points were earned. The implementation of the standard is not expected to have a material quantitative impact on the consolidated financial statements. The Company is currently evaluating the effects of disclosure requirements of IFRS 15 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **Financial Instruments (“IFRS 9”)**

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

IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company has determined that the adoption of IFRS 9 will not have a significant impact on its consolidated financial results. The Company is currently evaluating the effects of the disclosure requirements of IFRS 9 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **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. While the Company is still assessing the impact of adopting this standard on its consolidated financial statements, the recognition of certain leases is expected to have a material impact on the Company’s consolidated balance sheets.

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**

### **Risk factors**

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 during 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, political uncertainty, the impact of natural disasters, geo-political events or acts of terrorism, 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, retail pharmacies, warehouse clubs, mail order clubs, Internet booksellers, mass merchandisers, and other retailers continue to sell physical book offerings, often at substantially discounted prices. Many of these competitors, as well as other retailers, also offer eBooks, eReaders and other digital reading options, which compete for the share of the customer's discretionary book and entertainment budget. This competition could negatively impact the Company's revenues and margins.

The general merchandise retail landscape also features a significant competition from established retailers and emerging disruptive digital retail options, 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, including the United States, 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**

Indigo relies heavily on suppliers to sell books and general merchandise on acceptable terms and within agreed upon timelines. These suppliers are impacted by, among other things, increases in labour and input costs, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, trade restrictions, tariffs, currency exchange rates, transport costs and other factors. The factors are beyond the Company's control and a failure to maintain favorable terms and relationships with these suppliers, or the absence of key suppliers, may affect the Company's ability to compete in the market - place. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions of imports, changes in trade restrictions and tariffs, 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 and personal care products and is subject to the distinctive risks associated with those products.

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 offering product safety guidance to third-party manufacturers.

### **Information Technology and Digital Platforms**

The Company increasingly depends on the proper operation of its information technology platforms and those of third parties to successfully conduct daily business functions, maintain its competitive position in the marketplace and enable its growth strategy. The Company continues to invest in new technologies to expand its competitiveness and customer experience. Any failure in the implementation of these solutions, the operation of current information technology systems, platforms or third-party cloud-based processing could result in a significant disruption to the business, potentially negatively impacting revenue or damaging the Company's reputation. Furthermore, the Company continues to rely on legacy technologies and systems and any failure to migrate to new technology systems could impact Indigo's operational effectiveness.

### **Cybersecurity**

A failure in, or breach of, the Company's Information Technology 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 cyber attacks, 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 Information Technology 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**

Indigo 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 from time to time in litigation and disputes. Since outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, there is the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to the Company and significantly divert the attention of the Company's management. While the final outcome of such claims and litigation pending as at March 31, 2018 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, the United States 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, provincial and state statutes govern the privacy rights of the Company's employees and customers. These 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 Chief Financial Officer (“CFO”), so that appropriate decisions can be made by them regarding public disclosure.

As required by National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings,” the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at March 31, 2018.

## Internal Controls over Financial Reporting

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

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

As required by National Instrument 52-109, “Certification of Disclosure in Issuers’ Annual and Interim Filings,” the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such internal controls over financial reporting using the framework established in the Internal Control – Integrated Framework (“COSO Framework”) published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company’s internal controls over financial reporting were effective as at March 31, 2018.

## Changes in Internal Controls over Financial Reporting

Management has also evaluated whether there were changes in the Company’s internal controls over financial reporting that occurred during the period beginning on December 31, 2017 and ended on March 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

## Cautionary Statement Regarding Forward-Looking Statements

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

## Non-IFRS Financial Measures

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

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

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

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

(millions of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Adjusted EBITDA	55.0	52.2
Depreciation of property, plant, and equipment	(19.1)	(16.6)
Amortization of intangible assets	(7.9)	(8.6)
Net reversal of capital asset impairments	–	1.0
Loss on disposal of capital assets	(1.5)	(2.8)
Net interest income	3.0	2.2
Share of earnings from equity investments	1.0	1.6
<b>Earnings before income taxes</b>	<b>30.5</b>	<b>29.0</b>

# Independent Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

We have audited the accompanying consolidated financial statements of Indigo Books & Music Inc., which comprise the consolidated balance sheets as at March 31, 2018 and April 1, 2017, and the consolidated statements of earnings and comprehensive earnings, changes in equity, and cash flows for the 52-week period ended March 31, 2018 and the 52-week period ended April 1, 2017, and a summary of significant accounting policies and other explanatory information.

## **Management's responsibility for the consolidated financial statements**

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

## **Auditors' responsibility**

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

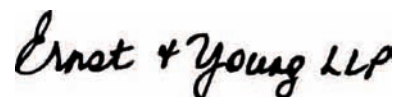
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

## **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Indigo Books & Music Inc. as at March 31, 2018 and April 1, 2017, and its financial performance and its cash flows for the 52-week period ended March 31, 2018 and for the 52-week period ended April 1, 2017 in accordance with International Financial Reporting Standards.

Toronto, Canada  
May 29, 2018



Chartered Professional Accountants  
Licensed Public Accountants

# Consolidated Balance Sheets

(thousands of Canadian dollars)	As at March 31, 2018	As at April 1, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents (note 6)	150,256	130,438
Short-term investments (note 6)	60,000	100,000
Accounts receivable	6,747	7,448
Inventories (note 7)	264,586	231,576
Prepaid expenses	4,124	11,706
Derivative assets (note 8)	1,439	266
Assets held for sale (note 11)	–	1,037
<b>Total current assets</b>	<b>487,152</b>	<b>482,471</b>
Property, plant, and equipment (note 9)	82,314	65,078
Intangible assets (note 10)	24,215	15,272
Equity investments (note 22)	4,330	1,800
Deferred tax assets (note 12)	35,563	43,981
<b>Total assets</b>	<b>633,574</b>	<b>608,602</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 21)	176,479	170,611
Unredeemed gift card liability	44,218	50,396
Provisions (note 13)	166	110
Deferred revenue	8,807	12,852
Income taxes payable	152	360
Derivative liabilities (note 8)	327	–
<b>Total current liabilities</b>	<b>230,149</b>	<b>234,329</b>
Long-term accrued liabilities (note 21)	2,283	2,378
Long-term provisions (note 13)	45	51
<b>Total liabilities</b>	<b>232,477</b>	<b>236,758</b>
<b>Equity</b>		
Share capital (note 15)	221,854	215,971
Contributed surplus (note 16)	11,621	10,671
Retained earnings	166,807	145,007
Accumulated other comprehensive income (note 8)	815	195
<b>Total equity</b>	<b>401,097</b>	<b>371,844</b>
<b>Total liabilities and equity</b>	<b>633,574</b>	<b>608,602</b>

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 March 31, 2018	52-week period ended April 1, 2017
<b>Revenue</b> (note 17)	<b>1,079,425</b>	1,019,845
Cost of sales	<b>(604,094)</b>	(565,640)
<b>Gross profit</b>	<b>475,331</b>	454,205
Operating, selling, and administrative expenses (notes 9, 10 and 17)	<b>(448,909)</b>	(428,981)
<b>Operating profit</b>	<b>26,422</b>	25,224
Net interest income	<b>3,010</b>	2,196
Share of earnings from equity investments (note 22)	<b>1,049</b>	1,617
<b>Earnings before income taxes</b>	<b>30,481</b>	29,037
Income tax expense (note 12)		
Current	<b>(489)</b>	(335)
Deferred	<b>(8,192)</b>	(7,784)
<b>Net earnings</b>	<b>21,800</b>	20,918
<b>Other comprehensive income</b> (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 897; 2017 – (496)]	<b>(2,648)</b>	1,357
Reclassification of net realized (gain) loss		
[net of taxes of (1,194); 2017 – 425]	<b>3,268</b>	(1,162)
<b>Other comprehensive income</b>	<b>620</b>	195
Total comprehensive earnings	<b>22,420</b>	21,113
<b>Net earnings per common share</b> (note 18)		
Basic	<b>\$0.81</b>	\$0.79
Diluted	<b>\$0.80</b>	\$0.78

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, 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 15 and 16)	–	1,400	–	–	1,400
Directors' compensation (note 16)	–	367	–	–	367
Other comprehensive income (note 8)	–	–	–	195	195
<b>Balance, April 1, 2017</b>	<b>215,971</b>	<b>10,671</b>	<b>145,007</b>	<b>195</b>	<b>371,844</b>
Balance, April 1, 2017	<b>215,971</b>	<b>10,671</b>	<b>145,007</b>	<b>195</b>	<b>371,844</b>
Net earnings	–	–	21,800	–	21,800
Exercise of options (notes 15 and 16)	5,883	(979)	–	–	4,904
Share-based compensation (notes 15 and 16)	–	1,588	–	–	1,588
Directors' compensation (note 16)	–	341	–	–	341
Other comprehensive income (note 8)	–	–	–	620	620
<b>Balance, March 31, 2018</b>	<b>221,854</b>	<b>11,621</b>	<b>166,807</b>	<b>815</b>	<b>401,097</b>

See accompanying notes

# Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net earnings	21,800	20,918
Adjustments to reconcile net earnings to cash flows from operating activities		
Depreciation of property, plant, and equipment (note 9)	19,074	16,612
Amortization of intangible assets (note 10)	7,922	8,573
Net reversal of capital assets (notes 9 and 10)	–	(963)
Loss on disposal of capital assets (notes 9 and 10)	776	2,770
Share-based compensation (note 16)	1,588	1,400
Directors' compensation (note 16)	341	367
Deferred tax assets (note 12)	8,192	7,784
Disposal of assets held for sale (note 11)	1,037	(1,037)
Other	1,042	147
Net change in non-cash working capital balances (note 19)	(29,335)	(17,196)
Interest expense	10	36
Interest income	(3,020)	(2,232)
Income taxes received	–	51
Share of earnings from equity investments (note 22)	(1,049)	(1,617)
<b>Cash flows from operating activities</b>	<b>28,378</b>	<b>35,613</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant, and equipment (note 9)	(37,080)	(19,774)
Addition of intangible assets (note 10)	(16,871)	(10,089)
Change in short-term investments (note 6)	40,000	(100,000)
Distribution from equity investments (note 22)	1,233	1,238
Interest received	2,872	1,190
Investment in associate (note 22)	(2,714)	–
<b>Cash flows used for investing activities</b>	<b>(12,560)</b>	<b>(127,435)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	–	(53)
Interest paid	–	(28)
Proceeds from share issuances (note 15)	4,904	4,966
<b>Cash flows from financing activities</b>	<b>4,904</b>	<b>4,885</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(904)	887
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>19,818</b>	<b>(86,050)</b>
Cash and cash equivalents, beginning of period	130,438	216,488
Cash and cash equivalents, end of period	150,256	130,438

See accompanying notes



# Notes to Consolidated Financial Statements

March 31, 2018

## 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 and its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc., and YYZ Holdings Inc. (“YYZ”), along with equity investments Calendar Club of Canada Limited Partnership (“Calendar Club”) and Unplug Meditation LLC. (“Unplug”). 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 the August 2001 amalgamation of Chapters Inc. and Indigo Books & Music Inc. The Company operates a chain of retail bookstores across all ten provinces and one territory in Canada, including 86 superstores (2017 – 89) under the *Indigo* and *Chapters* names, as well as 123 small format stores (2017 – 123) under the banners *Coles*, *Indigospirit*, and *The Book Company*. Online sales are generated through the Company’s digital platforms, its *indigo.ca* website and the Company’s mobile applications, where it sells an expanded selection of books, gifts, toys, and paper products. The Company is currently planning the opening of its first store in the United States.

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate capital resources. At Indigo, this is done on an enterprise level. This holistic managerial approach is reflected in the Company’s reimagined cultural department store concept. The new store design emphasizes a central focus on enriching the lives of book lovers with core print and general merchandise products. Therefore, the Company reports as a single segment.

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 29, 2018.

### 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 years ended March 31, 2018 and April 1, 2017 both contained 52 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 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 credits. 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 carry-forward of unused tax losses and unused tax credits 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 and amortized 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 Investments**

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 90 days 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 or equal to 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, software subscription fees, 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 recoverable 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 March 31, 2018, 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 March 31, 2018, 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
Retail lease	over the lease term
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.

#### Retail lease

Amounts paid as a premium to gain access to a property located in a specific location, inclusive of any associated professional fees, are treated as an intangible asset.

### **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.

## 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 the *indigo.ca* website. 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 sales 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 2018**

#### **Statement of Cash Flows ("IAS 7")**

In January 2016, the IASB issued amendments to IAS 7 as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statement users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Company applied this standard beginning April 2, 2017. Adopting these amendments did not have a significant impact on the Company's results of operations, financial position, or disclosures.

## **5. NEW ACCOUNTING PRONOUNCEMENTS**

### **Revenue from Contracts with Customers ("IFRS 15")**

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

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

Implementation of IFRS 15 is expected to impact the allocation of deferred plum program revenue. Revenue is currently allocated to plum points using the residual fair value method. Under IFRS 15, revenue will be allocated based on relative standalone selling prices between plum points and the goods on which points were earned. The implementation of the standard is not expected to have a material quantitative impact on the consolidated financial statements. The Company is currently evaluating the effects of disclosure requirements of IFRS 15 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **Financial Instruments (“IFRS 9”)**

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, “Financial Instruments: Recognition and Measurement,” and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company plans to apply this standard beginning on April 1, 2018. IFRS 9 more closely aligns hedge accounting with risk management activities and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company has determined that the adoption of IFRS 9 will not have a significant impact on its consolidated financial results. The Company is currently evaluating the effects of the disclosure requirements of IFRS 9 on its consolidated financial statements and expects to apply the standard in accordance with its future mandatory effective date.

### **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. While the Company is still assessing the impact of adopting this standard on its consolidated financial statements, the recognition of certain leases is expected to have a material impact on the Company’s Consolidated Balance Sheets.

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)	March 31, 2018	April 1, 2017
Cash	67,709	63,872
Restricted cash	2,093	1,343
Cash equivalents	80,454	65,223
<b>Cash and cash equivalents</b>	<b>150,256</b>	<b>130,438</b>

Restricted cash represents cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of offshore merchandise and cash placed in escrow for asset acquisitions that have occurred during the fiscal year.

As at March 31, 2018, the Company held short-term investments of \$60.0 million (April 1, 2017 – \$100.0 million). Short-term investments consist of guaranteed investment securities with an original maturity date greater than 90 days and remaining term to maturity of less than or equal to 365 days from the date of acquisition. These investments are non-redeemable until the maturity date, and therefore they are classified separately from cash and cash equivalents.

## 7. INVENTORIES

The cost of inventories recognized as an expense was \$603.1 million in fiscal 2018 (2017 – \$571.9 million). Inventories consist of the landed cost of goods sold and exclude inventory shrink and damage reserve, and all vendor support programs. The amount of inventory write-downs as a result of net realizable value lower than cost was \$9.7 million in fiscal 2018 (2017 – \$9.0 million). The amount of inventory with net realizable value equal to cost was \$3.6 million as at March 31, 2018 (April 1, 2017 – \$2.8 million).

## 8. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments, such as foreign exchange forward contracts, to manage the currency fluctuation risk associated with forecasted U.S. dollar payments, primarily for general merchandise inventory purchases. These contracts have been designated as cash flow hedges for accounting purposes. The fair values of derivative financial instruments are determined based on observable market information as well as valuations determined by external valuers with experience in financial markets.

During the fiscal year ended March 31, 2018, the Company entered into forward contracts with total notional amounts of C\$137.9 million to buy U.S. dollars and sell Canadian dollars (April 1, 2017 – C\$173.4 million). As at March 31, 2018, the Company had remaining contracts in place representing a total notional amount of C\$79.2 million (April 1, 2017 – C\$70.3 million). These contracts extend over a period not exceeding 12 months.

The total fair value of the contracts as at March 31, 2018 resulted in the recognition of a derivative asset of \$1.4 million (April 1, 2017 – \$0.3 million), and a derivative liability of \$0.3 million (April 1, 2017 – no derivative liability). As a result, the Company had an unrealized net gain of \$1.1 million (April 1, 2017 – \$0.3 million net gain) recognized as other comprehensive income.

During the fiscal year ended March 31, 2018, a net loss of \$3.3 million from settled contracts (April 1, 2017 – net gain of \$1.2 million) was reclassified from other comprehensive income to inventory and expenses.

During the fiscal year ended March 31, 2018, reclassified amounts resulting from hedge ineffectiveness were immaterial (April 1, 2017 – immaterial).

## 9. PROPERTY, PLANT, AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Equipment under finance leases	Total
<b>Gross carrying amount</b>					
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
Additions	<b>16,726</b>	<b>6,439</b>	<b>13,915</b>	–	<b>37,080</b>
Disposals	<b>(1,534)</b>	<b>(133)</b>	<b>(362)</b>	<b>(136)</b>	<b>(2,165)</b>
Assets with zero net book value	<b>(3,825)</b>	<b>(1,924)</b>	<b>(4,446)</b>	–	<b>(10,195)</b>
<b>Balance, March 31, 2018</b>	<b>83,211</b>	<b>16,543</b>	<b>64,501</b>	–	<b>164,255</b>
<b>Accumulated depreciation and impairment</b>					
Balance, April 2, 2016	34,793	5,693	32,843	537	73,866
Depreciation	6,867	2,182	7,502	61	16,612
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
Depreciation	<b>7,551</b>	<b>2,458</b>	<b>9,062</b>	<b>3</b>	<b>19,074</b>
Disposals	<b>(872)</b>	<b>(73)</b>	<b>(314)</b>	<b>(136)</b>	<b>(1,395)</b>
Assets with zero net book value	<b>(3,825)</b>	<b>(1,924)</b>	<b>(4,446)</b>	–	<b>(10,195)</b>
<b>Balance, March 31, 2018</b>	<b>38,728</b>	<b>6,290</b>	<b>36,923</b>	–	<b>81,941</b>
<b>Net carrying amount</b>					
April 1, 2017	35,970	6,332	22,773	3	65,078
<b>March 31, 2018</b>	<b>44,483</b>	<b>10,253</b>	<b>27,578</b>	–	<b>82,314</b>

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.

Impairment indicators were identified during fiscal 2018 for certain retail stores. Accordingly, the Company performed testing which did not result in impairment losses or reversals in fiscal 2018 (2017 – \$1.0 million impairment reversal). 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	Retail lease	Total
<b>Gross carrying amount</b>					
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
Additions	<b>7,073</b>	<b>5,204</b>	<b>3,387</b>	<b>1,207</b>	<b>16,871</b>
Transfers/reclassifications	–	–	–	–	–
Disposals	<b>(6)</b>	–	–	–	<b>(6)</b>
Assets with zero net book value	<b>(3,732)</b>	<b>(3,821)</b>	–	–	<b>(7,553)</b>
<b>Balance, March 31, 2018</b>	<b>20,222</b>	<b>13,229</b>	<b>3,462</b>	<b>1,207</b>	<b>38,120</b>
<b>Accumulated amortization and impairment</b>					
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
Amortization	<b>4,326</b>	<b>3,575</b>	–	<b>21</b>	<b>7,922</b>
Disposals	–	–	–	–	–
Assets with zero net book value	<b>(3,732)</b>	<b>(3,821)</b>	–	–	<b>(7,553)</b>
<b>Balance, March 31, 2018</b>	<b>7,948</b>	<b>5,936</b>	–	<b>21</b>	<b>13,905</b>
<b>Net carrying amount</b>					
April 1, 2017	9,533	5,664	75	–	15,272
<b>March 31, 2018</b>	<b>12,274</b>	<b>7,293</b>	<b>3,462</b>	<b>1,186</b>	<b>24,215</b>

The useful life of the domain names have been deemed to be indefinite because there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful lives of these assets 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 indicators were identified during fiscal 2018 for Indigo's retail stores. Accordingly, the Company performed impairment testing but there were no intangible asset impairment losses or reversals for retail stores in fiscal 2018 (2017 – 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.



## 11. ASSETS HELD FOR SALE

On April 28, 2017, the Company entered into an agreement with Starbucks Coffee Canada Inc. (“Starbucks”) whereby, among other things, the Company and Starbucks mutually agreed to terminate the Company’s license to operate Starbucks-branded cafés within 11 retail locations.

Based on the terms of the agreement, the Company agreed to transfer to Starbucks the café inventories and capital assets from the terminated licensed locations, and the Company classified these inventories and capital assets as assets held for sale. Subsequent to the transfer, the Company has subleased space in each of the previously licensed locations for Starbucks to operate corporate-run cafés, similar to the 70 other Starbucks-branded cafés Starbucks operates in the Company’s retail locations. The transfer and subsequent subleasing were completed on May 1, 2017.

## 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 March 31, 2018, the Company has recorded \$35.6 million in gross value of deferred tax assets (April 1, 2017 – \$44.0 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)	March 31, 2018	April 1, 2017
Reserves and allowances	761	1,371
Tax loss carryforwards	17,400	22,243
Corporate minimum tax credit	3,374	2,871
Book amortization in excess of capital cost allowance	14,326	17,567
Cash flow hedges	(298)	(71)
<b>Total deferred tax assets</b>	<b>35,563</b>	<b>43,981</b>

Significant components of income tax expense are as follows:

(thousands of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Current income tax expense	512	360
Adjustment for prior periods	(23)	(25)
	<b>489</b>	<b>335</b>
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	2,136	6,119
Deferred income tax expense relating to utilization of loss carryforwards	6,087	1,649
Adjustment to future income tax assets resulting from a change in substantively enacted tax rates and expected pattern of reversal	(201)	38
Other, net	170	(22)
	<b>8,192</b>	<b>7,784</b>
<b>Total income tax expense</b>	<b>8,681</b>	<b>8,119</b>

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

(thousands of Canadian dollars)	52-week period ended March 31, 2018	%	52-week period ended April 1, 2017	%
Earnings before income taxes	30,481		29,037	
Tax at combined federal and provincial tax rates	8,156	26.8%	7,771	26.8%
Tax effect of expenses not deductible for income tax purposes	644	2.1%	587	2.0%
Adjustment to future income tax assets resulting from reduction in substantively enacted tax rates and expected pattern of reversal	(201)	(0.7%)	38	0.1%
Other, net	82	0.3%	(277)	(1.0%)
	<b>8,681</b>	<b>28.5%</b>	8,119	27.9%

As at March 31, 2018, the Company has non-capital loss carryforwards of approximately \$64.8 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. 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. Legal claim provisions fluctuate depending on the outcomes when claims are settled.

Activity related to the Company's provisions is as follows:

(thousands of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Balance, beginning of period	161	143
Charged	75	85
Utilized / released	(25)	(67)
<b>Balance, end of period</b>	<b>211</b>	161

The Company reviews the merits, risks and uncertainties of each provision, based on current information, and the amount expected to be required to settle the obligation. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company.

### 14. COMMITMENTS AND CONTINGENCIES

#### (a) Commitments

As at March 31, 2018, 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 2018 and 2034, 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. The Company's expected sublease income in the next five fiscal years and thereafter is as follows:

(millions of Canadian dollars)	Total
Less than 1 year	4.5
1-5 years	12.1
After 5 years	10.1
<b>Total</b>	<b>26.7</b>

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
2019	68.2
2020	53.4
2021	43.4
2022	40.0
2023	28.1
Thereafter	135.9
<b>Total obligations</b>	<b>369.0</b>

## (b) Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at March 31, 2018 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 March 31, 2018		52-week period ended April 1, 2017	
	Number of shares	Amount C\$ (thousands)	Number of shares	Amount C\$ (thousands)
Balance, beginning of period	26,351,484	215,971	25,797,351	209,318
Issued during the period				
Directors' deferred share units converted	–	–	67,108	670
Options exercised	449,125	5,883	487,025	5,983
<b>Balance, end of period</b>	<b>26,800,609</b>	<b>221,854</b>	26,351,484	215,971

## 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 March 31, 2018 is 3,520,091. 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 installments 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 installments 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 2018, the pre-forfeiture value of the options granted was \$2.7 million (2017 – \$2.8 million). The weighted average fair value of options issued in fiscal 2018 was \$3.76 per option (2017 – \$4.19 per option).

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

	52-week period ended March 31, 2018	52-week period ended April 1, 2017
<b>Black-Scholes option pricing assumptions</b>		
Risk-free interest rate	1.3%	0.6%
Expected volatility	31.4%	33.8%
Expected time until exercise	3.0 years	3.0 years
Expected dividend yield	–	–
<b>Other assumptions</b>		
Forfeiture rate	27.1%	27.3%

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

	52-week period ended March 31, 2018		52-week period ended April 1, 2017	
	Number #	Weighted average exercise price C\$	Number #	Weighted average exercise price C\$
Outstanding options, beginning of period	1,663,925	12.60	1,751,800	10.07
Granted	715,000	16.50	657,000	17.94
Forfeited	(138,425)	16.14	(257,850)	13.50
Expired	(2,500)	8.00	–	–
Exercised	(449,125)	10.74	(487,025)	10.20
<b>Outstanding options, end of period</b>	<b>1,788,875</b>	<b>14.36</b>	<b>1,663,925</b>	<b>12.60</b>
<b>Options exercisable, end of period</b>	<b>692,630</b>	<b>11.41</b>	<b>734,900</b>	<b>9.68</b>

A summary of options outstanding and exercisable is presented below:

Range of exercise prices C\$	March 31, 2018				
	Outstanding			Exercisable	
	Number #	Weighted average exercise price C\$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C\$
8.12 – 10.28	433,625	9.18	1.6	330,500	8.90
10.29 – 15.61	233,350	10.93	1.5	213,550	10.77
15.62 – 16.35	525,000	16.00	4.4	–	–
16.36 – 18.20	446,900	17.91	3.4	148,580	17.91
18.21 – 18.40	150,000	18.40	4.6	–	–
8.12 – 18.40	1,788,875	14.36	3.1	692,630	11.41

### 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 2018 Directors' compensation was in the form of DSUs (2017 – all DSUs).

The number of shares reserved for issuance under this plan is 500,000. The Company issued 20,100 DSUs with a value of \$0.3 million during fiscal 2018 (2017 – \$21,788 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 March 31, 2018 was \$3.8 million (April 1, 2017 – \$3.5 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 March 31, 2018	52-week period ended April 1, 2017
Print <sup>1</sup>	593,085	598,107
General merchandise <sup>2</sup>	449,229	384,097
eReading <sup>3</sup>	10,126	12,510
Other <sup>4</sup>	26,985	25,131
Total	1,079,425	1,019,845

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

2 Includes lifestyle, paper, toys, 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 March 31, 2018	52-week period ended April 1, 2017
Wages, salaries, and bonuses	<b>190,468</b>	180,893
Short-term benefits expense	<b>20,097</b>	19,444
Termination benefits expense	<b>4,049</b>	2,922
Retirement benefits expense	<b>1,723</b>	1,575
Share-based compensation	<b>1,588</b>	1,400
<b>Total employee benefits expense</b>	<b>217,925</b>	206,234

Termination benefits arise when the Company terminates certain employment agreements.

Minimum lease payments recognized as an expense during fiscal 2018 were \$62.5 million (2017 – \$60.4 million). Contingent rents recognized as an expense during fiscal 2018 were \$2.0 million (2017 – \$1.6 million).

## 18. EARNINGS PER SHARE

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

	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Weighted average number of common shares outstanding, basic	<b>26,849,418</b>	26,384,775
Effect of dilutive securities – stock options	<b>404,569</b>	566,339
Weighted average number of common shares outstanding, diluted	<b>27,253,987</b>	26,951,114

As at March 31, 2018, 1,121,900 (April 1, 2017 – 552,000) anti-dilutive stock options were excluded from the computation of diluted net earnings per common share.

## 19. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Accounts receivable	701	215
Inventories	(33,010)	(13,788)
Income taxes recoverable	–	(26)
Prepaid expenses	7,582	(416)
Accounts payable and accrued liabilities (current and long-term)	5,773	(2,606)
Unredeemed gift card liability	(6,178)	(573)
Provisions (current and long-term)	50	18
Income tax payable	(208)	360
Deferred revenue	(4,045)	(380)
<b>Net change in non-cash working capital balances</b>	<b>(29,335)</b>	<b>(17,196)</b>

## 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; and
- 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 2018, the effect of foreign currency translation on net earnings was a loss of \$0.8 million (2017 – gain of \$0.2 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 March 31, 2018 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	148,616	27,788	75	176,479
Unredeemed gift card liability	44,218	–	–	44,218
Provisions	6	160	–	166
Long-term accrued liabilities	–	–	2,283	2,283
Long-term provisions	–	–	45	45
<b>Total</b>	<b>192,840</b>	<b>27,948</b>	<b>2,403</b>	<b>223,191</b>



## 22. EQUITY INVESTMENTS

The Company holds a 50% equity ownership in its associate, Calendar Club, which operates seasonal kiosks and year-round stores in Canada. The Company uses the equity method of accounting to record Calendar Club results. In fiscal 2018, the Company received \$1.2 million (2017 – \$1.2 million) of distributions from Calendar Club.

In the first quarter fiscal 2018, the Company invested in Unplug, a U.S. meditation studio, resulting in a 20% voting interest and representation on the board of managers. The Company uses the equity method of accounting to record Unplug results. The Company did not receive a distribution from Unplug during the period.

Changes in the carrying amount of Calendar Club were as follows:

(thousands of Canadian dollars)	Carrying value
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
Equity Income from Calendar Club	<b>1,087</b>
Distributions from Calendar Club	<b>(1,233)</b>
<b>Balance March 31, 2018</b>	<b>1,654</b>

Changes in the carrying amount of Unplug were as follows:

(thousands of Canadian dollars)	Carrying value
Balance April 1, 2017	–
Investment in Unplug	<b>2,714</b>
Equity Loss from Unplug	<b>(38)</b>
<b>Balance March 31, 2018</b>	<b>2,676</b>

## 23. RELATED PARTY TRANSACTIONS

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

### Transactions with Key Management Personnel

Key management of the Company includes members of the Board of Directors as well as members of the Executive Committee.

Key management personnel remuneration includes the following:

(thousands of Canadian dollars)	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Wages, salaries, and bonus	<b>7,653</b>	7,733
Short-term benefits expense	<b>168</b>	233
Termination benefits expense	–	424
Retirement benefits expense	<b>56</b>	61
Share-based compensation	<b>986</b>	833
Directors' compensation	<b>341</b>	367
<b>Total remuneration</b>	<b>9,204</b>	9,651

**Transactions with Shareholders**

During fiscal 2018, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2018, the Company paid \$7.0 million for these transactions (2017 – \$6.0 million). As at March 31, 2018, Indigo had \$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 1, 2017 – less than \$0.1 million payable and \$1.0 million restricted cash). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

**Transactions with Defined Contribution Retirement Plan**

The Company's transactions with the defined contribution retirement plan include contributions paid to the retirement plan as disclosed in note 17. The Company has not entered other transactions with the retirement plan.

**Transactions with Associates**

Calendar Club is a seasonal operation that is dependent on the November/December holiday sales season to generate revenue. During the year, the Company loans cash to Calendar Club for working capital requirements and Calendar Club repays the loans once profits are generated in the third quarter. In fiscal 2018, Indigo loaned \$14.9 million to Calendar Club (2017 – \$11.6 million). All loans were repaid in full as at March 31, 2018.

The Company had immaterial transactions with Unplug during the period.

# Corporate Governance Policies

A presentation of the Company's corporate governance policies is included in the Management Information Circular, which is either mailed directly to shareholders or made available through the Notice and Access process. 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*

Tod Morehead

*Executive Vice President and Chief Merchandising Officer*

Bahman (Bo) Parizadeh

*Executive Vice President and  
Chief Technology Officer*

Hugues Simard

*Executive Vice President and Chief Financial Officer*

## 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

*Executive Chairman  
SmartCentres REIT and  
Owner  
Penguin Group of Companies*

Howard Grosfield

*Executive Vice President and General Manager  
US Consumer Card Services  
American Express*

Robert Haft

*Managing Partner  
Morgan Noble Healthcare Partners*

Andrea Johnson

*Principal  
Envelo Properties Corp.*

Michael Kirby

*Corporate Director*

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*

# Five-Year Summary of Financial Information

For the years ended (millions of Canadian dollars, except per share data)	March 31, 2018	April 1, 2017	April 2, 2016	March 28, 2015	March 29, 2014
<b>SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION</b>					
Revenue					
Superstores	728.6	702.1	695.3	625.2	607.2
Small format stores	143.6	140.7	140.2	127.8	127.4
Online	176.8	148.2	133.3	114.0	102.0
Other	30.4	28.8	25.4	28.4	31.1
Total revenue	1,079.4	1,019.8	994.2	895.4	867.7
Adjusted EBITDA <sup>1,2</sup>	55.0	52.2	43.1	20.5	0.1
Earnings (loss) before income taxes	30.5	29.0	22.1	(3.2)	(26.9)
Net earnings (loss)	21.8	20.9	28.6	(3.5)	(31.0)
Dividends per share	–	–	–	–	0.33
Net earnings (loss) per common share	\$ 0.81	\$ 0.79	\$ 1.10	\$(0.14)	\$(1.21)
<b>SELECTED CONSOLIDATED BALANCE SHEET INFORMATION</b>					
Working capital	257.0	248.1	217.9	198.7	189.7
Total assets	633.6	608.6	584.0	538.4	512.6
Long-term debt (including current portion)	–	–	0.1	0.2	0.8
Total equity	401.1	371.8	344.0	311.1	311.7
Weighted average number of shares outstanding	26,849,418	26,384,775	25,949,068	25,722,640	25,601,260
Common shares outstanding at end of period	26,800,609	26,351,484	25,797,351	25,495,289	25,298,239
<b>STORE OPERATING STATISTICS</b>					
<b>Number of stores at end of period</b>					
Superstores	86	89	88	91	95
Small format stores	123	123	123	127	131
<b>Selling square footage at end of period</b> (in thousands)					
Superstores	1,887	1,953	1,925	2,019	2,163
Small format stores	308	304	305	311	321
<b>Comparable sales growth</b>					
Total retail and online	6.2%	4.1%	12.9%	6.5%	(0.3%)
Superstores	4.0%	2.9%	12.8%	6.8%	(0.9%)
Small format stores	2.4%	0.9%	10.9%	0.8%	(5.0%)
Superstores	386	360	361	310	281
Small format stores	467	463	460	411	397

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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## MEDIA CONTACT

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## STOCK LISTING

Toronto Stock Exchange

## TRADING SYMBOL

IDG

## TRANSFER AGENT AND REGISTRAR

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Fax: 1-888-249-6189  
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## AUDITORS

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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, 2018 at 10:00 a.m. at  
Torys LLP  
79 Wellington Street West, 33<sup>rd</sup> 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 \$28 million in more than 3,000 high-needs schools, impacting over 900,000 children. The Foundation runs two signature programs each year. In May 2018, 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 2017, Indigo Adopt a School program contributed over \$1 million to more than 550 schools across Canada, impacting more than 185,000 children. The Foundation also celebrated Giving Tuesday, an annual global celebration of charitable giving held in November, by providing a total of \$0.5 million to over 50 high-needs elementary schools.

This past year, the Foundation released and distributed *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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