Indigo
Enrich your life®
ANNUAL REPORT FOR THE 52-WEEK PERIOD
ENDED MARCH 30, 2019

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.

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

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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

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

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 28, 2019 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 30, 2019 and March 31, 2018. The Company's consolidated financial statements and accompanying notes are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using the accounting policies described therein.

This MD&A should be read in conjunction with the consolidated financial statements and accompanying notes contained in the attached Annual Report. The Annual Report and additional information about the Company, including the Annual Information Form, can be found on SEDAR at *www.sedar.com*.

Overview

Indigo is Canada's largest book, gift, and specialty toy retailer, operating stores in all ten provinces and one territory and offering online sales through the *indigo.ca* website and the Company's mobile applications. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating its first retail store in Short Hills, New Jersey. As at March 30, 2019, the Company operated 89 superstores under the banners *Chapters* and *Indigo*, and 115 small format stores under the banners *Coles*, *Indigospirit*, and *The Book Company*.

As at March 30, 2019, the Company employed approximately 7,000 people (on a full-time, part-time, and casual basis) and generated annual revenue of $1,046.8 million. The Company has a 50% interest in Calendar Club of Canada Limited Partnership ("Calendar Club"), which operates seasonal kiosks and year-round stores in shopping malls across Canada. The Company is also comprised of its wholly-owned subsidiaries; Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with its equity investment in Unplug Meditation, LLC ("Unplug").

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

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 accelerated its transformation and has rebranded and renovated 22 stores and opened six new stores to improve the customer experience and product offerings across key gifting categories.

The Company continues to explore initiatives around further integration of its physical and digital platforms. In fiscal 2018, the Company piloted a mobile checkout POS solution, which was then fully implemented in fiscal 2019 across the majority of its retail locations. This technology both facilitates a more connected end-to-end customer experience, as well as expedites customer queues during busy gifting periods. During the past year, the Company piloted an express pick-up checkout solution, which allows customers to order online and pick up their order in store within the same day and will continue to roll this out in fiscal 2020.

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 !ndigoKids® 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. In fiscal 2019, the Company piloted an express pick-up checkout solution in six stores, launched a refreshed Indigo shopping mobile application, and piloted a digital gift registry.

Optimizing the Company's plum rewards loyalty program has also been a key area of focus over 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. In fiscal 2019, Indigo launched a digital gift registry where customers can create, manage and share their birthday, wedding or baby registry on *indigo.ca* and on the Indigo mobile application. Gifts listed on registries can be purchased either in stores or on the Company's digital platforms. In fiscal 2019, Indigo introduced its very own iconic brand gift wrap program with offerings for adults and kids. With a strong commitment to reducing waste, Indigo focused on the design and quality of its branded gift boxes and gift bags to ensure that each is reusable and can be used for treasured keepsakes or to gift again. Indigo also used these gift boxes to create easy giftable sets for customers over the holiday season. A collection of 11 gift box sets were offered on *indigo.ca*, including complementary pairings of books and general merchandise products.

The enhanced gifting assortment is supported by the Company's design and global sourcing team 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 available only 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 the best rewarding retail employer, 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. This work involves partnerships across all areas of the Company and is expected to continue to evolve over the next several years.

In fiscal 2019, Indigo continued to attain record-high employee engagement and customer satisfaction scores with scores of 89% and 77%, respectively, as well as receiving external recognition for its employee and customer experience. Forbes selected Indigo as one of Canada's Best Employers in 2019 based on an independent survey from a vast sample of more than 8,000 Canadian employees working for companies employing at least 500 people in their Canadian operations. Indigo was ranked 125 out of all selected organizations and 13 in the Retail category. Indigo was also named one of Canada's Most Attractive Employers by students across Canada. This award recognizes the most coveted employers based solely on students' perceptions and is presented by Universum, an organization that annually surveys over 1,500,000 students and professionals worldwide. The survey is administered in more than 30 countries globally, working with over 200 universities, alumni groups and professional organizations. In addition, Indigo was recognized as one of Leger's Top 100 Most Admired Companies in Canada, placing first in the bookstore/music/craft category and 18th overall.

In driving for operational excellence, the Company focuses on driving productivity improvements to support the Company's continued evolution and new business strategies. The challenge for the Company is to continually look for innovative ways to drive costs down while improving the services Indigo delivers to its customers.

In fiscal 2017, the Company focused on implementing supply chain productivity initiatives designed to deliver improved operating margins and improve service to customers. 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. In fiscal 2019, the Company's Calgary distribution centre began supporting the Company's Western Canadian retail stores and in fiscal 2020 is expected to start serving its online customers in the Western region. During the year, the Company also focused on a number of initiatives across its store network that allowed it to improve labour productivity. 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 30, 2019 and March 31, 2018.

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

(millions of Canadian dollars)	**52-week period ended March 30, 2019**	**% Revenue**	52-week period ended March 31, 2018[1]	% Revenue
Revenue	**1,046.8**	**100.0**	1,079.6	100.0
Cost of sales	**(619.9)**	**59.2**	(604.1)	56.0
Cost of operations	**(330.9)**	**31.6**	(312.8)	29.0
Selling, administrative, and other expenses	**(115.1)**	**11.0**	(107.5)	10.0
Adjusted EBITDA[2]	**(19.1)**	**1.8**	55.2	5.1
Depreciation of property, plant, and equipment	**(21.9)**	**2.1**	(19.1)	1.8
Amortization of intangible assets	**(10.6)**	**1.0**	(7.9)	0.7
Loss on disposal of capital assets	**(2.1)**	**0.2**	(1.5)	0.1
Net interest income	**3.2**	**0.3**	3.0	0.3
Share of earnings from equity investments	**0.9**	**0.1**	1.0	0.1
Earnings (loss) before income taxes	**(49.6)**	**4.7**	30.7	2.8

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.
2 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investments. Also see "Non-IFRS Financial Measures".

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

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 30, 2019**	52-week period ended March 31, 2018[1]	52-week period ended April 1, 2017[1]
Revenue			
Superstores	**711.4**	728.6	702.1
Small format stores	**144.8**	143.6	140.7
Online	**175.9**	176.8	148.2
Other	**14.7**	30.6	29.0
	1,046.8	1,079.6	1,020.0
Earnings (loss) before income taxes	**(49.6)**	30.7	29.2
Income tax recovery (expense)	**12.8**	(8.7)	(8.2)
Net earnings (loss)	**(36.8)**	21.9	21.0
Total assets	**610.5**	634.0	609.3
Working capital	**164.1**	258.8	248.9
Basic earnings (loss) per share	**($1.35)**	$0.82	$0.80
Diluted earnings (loss) per share	**($1.35)**	$0.81	$0.78

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.

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

	52-week period ended March 30, 2019	52-week period ended March 31, 2018	52-week period ended April 1, 2017
Comparable Sales Growth[1]			
Total retail and online	**(1.1%)**	6.2%	4.1%
Superstores	**(1.8%)**	4.0%	2.9%
Small format stores	**1.2%**	2.4%	0.9%
Stores Opened			
Superstores	**4**	–	1
Small format stores	**–**	1	–
	4	1	1
Stores Rebranded, Relocated, or Renovated			
Superstores	**13**	5	1
Small format stores	**–**	3	–
	13	8	1
Stores Closed			
Superstores	**1**	3	–
Small format stores	**8**	1	1
	9	4	1
Number of Stores Open at Year-End			
Superstores	**89**	86	89
Small format stores	**115**	123	123
	204	209	212
Selling Square Footage at Year-End (in thousands)			
Superstores	**1,962**	1,887	1,953
Small format stores	**287**	308	304
	2,249	2,195	2,257

1 See “Non-IFRS Financial Measures”.

Revenue

Total consolidated revenue for the 52-week period ended March 30, 2019 decreased $32.8 million or 3.0% to $1,046.8 million from $1,079.6 million for the 52-week period ended March 31, 2018. This was partly a result of the closure of a few underperforming stores and disruptions due to store renovations. Additionally, declining growth in the Canadian retail industry, which was more acutely experienced in product categories that are core to the Company’s general merchandise business, less successful seasonal assortments throughout the period, and the recognition of revenue from unredeemed gift cards and revenue from unredeemed plum points in the prior year resulted in lower revenue.

Total comparable sales, which includes online sales, decreased by 1.1% 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 defined as sales generated by stores that have been open for more than 52 weeks. These measures exclude sales fluctuations due to store openings and closings, significant renovations, permanent relocations, material changes in square footage, and the impact of a 53-week fiscal year, when applicable. These measures are key performance indicators for the Company but have no standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies.

Comparable retail superstore sales for the year decreased 1.8%, while small format stores increased 1.2%. The decrease in comparable retail superstore sales for the year was mainly driven by the reasons previously discussed. The general merchandise business, which has been an area of growth in recent fiscal years, was negatively impacted by external economic pressures and the maturity of its product assortment in the superstore format while books continued on their historical trends. Small format stores were merchandised with general merchandise products in a more significant manner during 2019, which contributed to the sales lift realized in this channel.

During the 52-week period ended March 30, 2019, the Company opened four net-new superstores, relocated, renovated or rebranded 13 others, and closed one location in this format. Included in the net-new store growth for the year was the opening of the Company's U.S. location in Short Hills, New Jersey, which is performing well, and partially offset the decrease experienced in the retail channel. In the same period, the Company also closed eight small format stores, primarily in markets where a new large format store has been opened and it is expected that customers will migrate to the new store.

Online revenue decreased by $0.9 million or 0.5% to $175.9 million for the 52-week period ended March 30, 2019 compared to $176.8 million in the same period last year. Online sales continued to grow in the first half of fiscal 2019 as a result of highly successful promotional campaigns. However, the channel faced significant disruptions in the second half of the year due to the holiday postal strike, the effect of economic pressures on discretionary spending and a mature product assortment garnering less demand, which were consistent with the downward trends experienced in the retail channel.

Revenue from other sources includes café revenue, irewards card sales, revenue from unredeemed gift cards ("gift card breakage"), revenue from unredeemed plum points ("plum breakage"), corporate sales, and revenue-sharing with Rakuten Kobo Inc. ("Kobo"). Revenue from other sources decreased $15.9 million or 52.0% to $14.7 million for the 52-week period ended March 30, 2019 compared to $30.6 million last year primarily driven by gift card and plum breakage. In fiscal 2018, management recognized revenue of $7.5 million and $4.4 million related to gift card and plum breakage respectively, due to a change in accounting estimates to reflect changes in customer redemption patterns. Management will continue to monitor redemption activity and will adjust for changes as observed.

Revenue by channel is highlighted below:

(millions of Canadian dollars)	**52-week period ended March 30, 2019**	52-week period ended March 31, 2018[1]	% increase (decrease)	Comparable sales % increase (decrease)
Superstores	**711.4**	728.6	(2.4)	(1.8)
Small format stores	**144.8**	143.6	0.8	1.2
Online (including store kiosks)	**175.9**	176.8	(0.5)	(0.5)
Other[2]	**14.7**	30.6	(52.0)	N/A
Total	**1,046.8**	1,079.6	(3.0)	(1.1)

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.

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

Reconciliations between total revenue and comparable sales are provided below:

(millions of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018
Total retail store revenue	**856.2**	872.2
Total online revenue	**175.9**	176.8
Adjustments for stores not in both fiscal periods	**(85.8)**	(92.1)
Total comparable sales	**946.3**	956.9

	Superstores		Small format stores	
(millions of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018	52-week period ended March 30, 2019	52-week period ended March 31, 2018
Total revenue by format	**711.4**	728.6	**144.8**	143.6
Adjustments for stores not in both fiscal periods	**(82.2)**	(88.0)	**(3.6)**	(4.1)
Comparable retail store sales	**629.2**	640.6	**141.2**	139.5

Revenue by product line is as follows:

	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
Print[2]	**55.5%**	55.0%
General merchandise[3]	**43.1%**	42.2%
Other[4]	**1.4%**	2.8%
Total	**100.0%**	100.0%

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.
2 Includes books, magazines, newspapers, and related shipping revenue.
3 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue.
4 Includes cafés, irewards, gift card breakage, plum breakage, corporate sales, and Kobo revenue share.

Cost of Sales

Cost of sales includes the landed cost of goods sold, online shipping costs, inventory shrink and damage reserve, less all vendor support programs. Cost of sales increased by $15.8 million to $619.9 million for the 52-week period ended March 30, 2019 compared to $604.1 million last year. As a percent of total revenue, cost of sales increased 3.2% to 59.2% from a rate of 56.0% last year. This rate increase was primarily driven by higher levels of discounting and lower full-price sell through, as a result of lower total comparable sales, disruptions from store renovations and the postal strike in the third quarter. Additionally, growth in lower margin areas of the business, such as bestseller books and toys, contributes to higher cost of sales.

Cost of Operations

Cost of operations includes all store, store support, online, and distribution centre costs. Cost of operations increased by $18.1 million to $330.9 million for the 52-week period ended March 30, 2019 compared to $312.8 million last year. As a percent of total revenue, cost of operations increased by 2.6% to 31.6%, compared to 29.0% last year.

The increase in operating costs was primarily driven by a rise in minimum wage across the country, particularly in Ontario, increased occupancy from the addition of net-new stores as part of the Company's retail transformation, and higher distribution centre costs associated with the Western distribution centre, which became operational during the period.

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 $7.6 million to $115.1 million for the 52-week period ended March 30, 2019 compared to $107.5 million last year. As a percent of total revenue, selling, administrative, and other expenses increased 1.0% to 11.0% compared to 10.0% last year.

Higher expenses in the current year were incurred in support of strategic projects as the Company transforms its retail and digital platforms. With the significant investment program for fiscal 2019 completed, the Company has launched a cost-cutting initiative in the fourth quarter, with plans to target $20.0 to $25.0 million in cost savings to drive profitability over the course of the coming year.

Adjusted EBITDA

Adjusted EBITDA, defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investment decreased $74.3 million to a loss position of $19.1 million for the 52-week period ended March 30, 2019 compared to earnings of $55.2 million last year.

Lower adjusted EBITDA was primarily driven by lower margins as result of a weakened economic environment coupled with ongoing renovations in the retail channel, external disruption to the online channel, and deeper discounting in response to these revenue fluctuations. A change in accounting estimates of $11.9 million for breakage which resulted in a benefit in fiscal 2018 also contributed to the unfavourable year-over-year variance. A reconciliation of adjusted EBITDA to earnings (losses) before taxes has been included in the "Results of Operations" section of Management's Discussion and Analysis.

Capital Assets

Depreciation and amortization for the 52-week period ended March 30, 2019 increased by $5.6 million to $32.6 million compared to $27.0 million last year. This change was driven by increased levels of capital asset additions in recent fiscal years.

Capital expenditures in fiscal 2019 totaled $86.6 million compared to $54.0 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 supply chain. Capital expenditures for fiscal 2019 included $60.1 million for retail store renovations and equipment, $7.4 million for technology equipment, and $19.1 million primarily for application software and related 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 or reversal was required, consistent with the prior year. 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 $3.2 million for the 52-week period ended March 30, 2019, compared to $3.0 million last year. The Company nets interest income against interest expense. Compared to last year, the Company generated marginally more interest income by maintaining a cash balance in short-term investments that earned higher interest rates.

Share of Earnings from Equity Investments

The Company uses the equity method to account for its investments in Calendar Club and Unplug and recognizes its share of equity investment earnings and losses as part of consolidated net earnings and losses. The Company recognized net earnings from Calendar Club of $0.9 million for the 52-week period ended March 30, 2019, compared to net earnings of $1.0 million for the same period last year. The Company recorded losses of less than $0.1 million from Unplug for the 52-week period ended March 30, 2019.

Income Taxes

The Company recognized a non-cash income tax recovery of $12.8 million for the 52-week period ended March 30, 2019, compared to recognizing a primarily non-cash income tax expense of $8.7 million last year. The income tax recovery recognized in the current year relates to an increase in deferred tax assets from the non-capital losses generated in the period, and temporary difference from capital assets. The Company's current year effective tax rate was 25.7% compared to 28.5% last year.

Net Earnings (Loss)

The Company recognized a net loss of $36.8 million for the 52-week period ended March 30, 2019 ($1.35 net loss per common share), compared to net earnings of $21.9 million ($0.82 net earnings per common share) last year for the reasons discussed above. Additionally, the Company's loss position was unfavourably impacted by higher amortization, driven by the increase in the Company's capital asset base in response to its growth in recent years, which was partially offset by the tax recovery recognized in the current year.

Other Comprehensive Income (Loss)

Other comprehensive earnings consists primarily of gains and losses related to hedge accounting and the Company's foreign currency translation adjustments. The Company has a formal hedging policy to mitigate foreign exchange risk, entering into contracts to manage the currency fluctuation risk associated with forecasted U.S. dollar expenses, primarily for general merchandise inventory purchases. Financial instruments used to mitigate risk include foreign exchange forward contracts. All contracts entered into during the 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 30, 2019, the Company entered contracts with total notional amounts of C$153.1 million to buy U.S. dollars and sell Canadian dollars, compared to entering contracts with total notional amounts of C$137.9 million last year. As at March 30, 2019, the Company had remaining contracts in place representing a total notional amount of C$66.9 million and an unrealized net gain of $1.1 million, compared to a total notional amount of C$79.2 million and an unrealized net gain of $1.1 million as at March 31, 2018. During the 52-week period ended March 30, 2019, net gains (net of taxes) of $2.5 million from settled contracts were reclassified from other comprehensive income (loss) to inventory and expenses compared to reclassified net losses (net of taxes) of $3.3 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) and basic and diluted earnings (loss) per share for the preceding eight fiscal quarters.

	Fiscal quarters[1]							
(millions of Canadian dollars, except per share data)	**Q4 Fiscal 2019**	Q3 Fiscal 2019	Q2 Fiscal 2019	Q1 Fiscal 2019	Q4 Fiscal 2018	Q3 Fiscal 2018	Q2 Fiscal 2018	Q1 Fiscal 2018
Revenue	**199.2**	426.0	216.3	205.4	215.4	433.3	224.6	206.4
Total net earnings (loss)	**(23.8)**	21.5	(19.1)	(15.4)	(10.7)	42.6	(4.6)	(5.3)
Basic earnings (loss) per share	**($0.86)**	$0.80	($0.70)	($0.57)	($0.40)	$1.58	($0.17)	($0.20)
Diluted earnings (loss) per share	**($0.86)**	$0.79	($0.70)	($0.57)	($0.40)	$1.56	($0.17)	($0.20)

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.

On a 13-week basis, total comparable sales, which includes online sales, decreased by 8.7% in the fourth quarter. Comparable retail store sales for the same period decreased 8.1% for superstores and decreased 3.6% for small format stores in comparison to the same period last year. In addition to the broader economic conditions and assortment challenges that affected full-year results, the timing of Easter negatively impacted our same-store sales in the quarter.

For the 13-week period ended March 30, 2019, total consolidated revenue decreased by $16.2 million to $199.2 million compared to $215.4 million for the 13-week period ended March 31, 2018. Retail revenue decreased by $9.4 million, or 5.4%, to $163.5 million from $172.9 million in the same quarter last year. Online revenue declined by $5.5 million, or 14.1%, to $33.5 million compared to $39.0 million in the same quarter last year.

Net loss for the 13-week period ended March 30, 2019 was $24.1 million compared to a loss of $10.7 million for the 13-week period ended March 31, 2018. In addition to the decline in revenue, earnings were impacted by higher operating costs driven by the rise of minimum wage and higher fixed costs due to expansion of the Company's distribution centre in Alberta. The Company also recognized a $8.9 million net income tax recovery in the fourth quarter of fiscal 2019 compared to a $4.6 million net income tax recovery in the same quarter last year.

Overview of Consolidated Balance Sheets

Assets

As at March 30, 2019, total assets decreased $23.5 million to $610.5 million, compared to $634.0 million as at March 31, 2018. The decrease was driven by a decrease in cash and cash equivalents, and inventories, partially offset by an increase in capital assets and deferred tax assets.

The decrease in cash and cash equivalents of $109.0 million was a result of increased capital investment activities undertaken by the Company as discussed. The decrease in inventories of $12.0 million was driven by stronger management of markdown inventory to clear through slow-moving general merchandise product in-season, tighter control on breadth of low-value products offered in the online assortment, and increased use of direct-to-store procurement methods within the print business.

The increase in property, plant and equipment of $43.6 million and intangible assets of $8.3 million were driven by investment in retail store renovations and digital initiatives. Deferred tax assets increased by $12.9 million due to the non-capital losses generated in the period and temporary differences arising from capital assets.

Liabilities

As at March 30, 2019, total liabilities increased $8.7 million to $240.3 million compared to $231.6 million as at March 31, 2018. The increase was driven by a $4.5 million increase in unredeemed gift card liability which was driven by sustained changes in customer redemption patterns. This was furthered by a $1.8 million increase in accounts payable and current accrued liabilities mainly related to outstanding balances from ongoing store renovations and accrued severance related to organizational changes implemented as part of the Company's broader cost-cutting initiatives. Long-term accrued liabilities also increased by $2.4 million due to accrued severance and increases in deferred rent from newly negotiated lease contracts.

Equity

Total equity at March 30, 2019 decreased $32.3 million to $370.1 million, compared to $402.4 million as at March 31, 2018 primarily as a result of the net loss of $36.8 million in the current year. This decrease was partially offset by an increase of $3.7 million in share capital due to the exercise of vested stock options, and an increase of $1.1 million in contributed surplus due to the issuance of new stock options.

The weighted average number of common shares outstanding for fiscal 2019 was 27,354,358 compared to 26,849,418 last year. As at May 28, 2019, the number of outstanding common shares was 27,136,386 with a book value of $225.5 million.

Working Capital and Leverage

The Company reported working capital of $164.1 million as at March 30, 2019, compared to $258.8 million as at March 31, 2018. The decrease in working capital compared to the same period last year was a result of lower current assets and higher

current liabilities; notably, the decrease in cash and cash equivalents of $109.0 million, decrease in inventories of $12.0 million and increase in the unredeemed gift card liability of $4.5 million in the year.

The Company's leverage position (defined as Total Liabilities to Total Equity) remained consistent at 0.6:1 as at March 30, 2019 compared to the prior period.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $109.0 million during fiscal 2019, compared to an increase of $19.8 million in the prior year. The decrease in fiscal 2019 was driven by cash flows used in investing activities of $109.7 million and cash flows used in operating activities of $2.8 million. This decrease was partially offset by cash generated in financing activities of $2.9 million and the effects of foreign exchange.

Cash Flows Used for Operating Activities

The Company used cash flows of $2.8 million in operating activities in fiscal 2019 compared to generating $28.4 million last year, a decrease of $31.2 million. The decrease was driven by a decline in earnings, as previously discussed, partially offset by the cash generated from working capital in the period of $15.2 million, compared to cash used for working capital of $29.5 million in the prior period.

Cash Flows Used for Investing Activities

The Company used cash flows of $109.7 million for investing activities in fiscal 2019 compared to using $12.6 million last year, an increase of $97.1 million. This was a result of short-term investments of $27.2 million made in the year, compared to $40.0 million of maturities in fiscal 2018 which generated additional cash flow in the prior period. The Company spent $86.6 million on capital projects this year compared to spending $54.0 million last year, an increase of $32.6 million. Cash was used for capital projects as follows:

(millions of Canadian dollars)	**52-week period ended March 30, 2019**	52-week period ended March 31, 2018
Construction, renovations, and equipment	**60.1**	30.7
Intangible assets (primarily application software and internal development costs)	**19.1**	16.9
Technology equipment	**7.4**	6.4
Total	**86.6**	54.0

Cash Flows from Financing Activities

The Company generated cash flows of $2.9 million from financing activities in fiscal 2019, compared to $4.9 million in the prior year. The variance was driven by lower cash proceeds received from option exercises in the current period.

Liquidity and Capital Resources

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

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	65.4	106.4	85.0	147.8	404.6

Based on the Company's liquidity position and cash flow forecast, management expects its current cash position, portfolio of short-term investments, and future cash flows generated from operations to be sufficient to meet its working capital needs for fiscal 2020. In addition, the Company has the ability to reduce capital spending if necessary; however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

Accounting Policies

Critical Accounting Judgments and Estimates

The discussion and analysis of 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 management to undertake a number of judgments and estimates about the recognition and measurement of assets, liabilities, revenues, and expenses. These judgments and estimates are based on management's historical experience and other assumptions which the Company believes to be reasonable under the circumstances. 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. Actual results may differ from the judgments and estimates made by management, and actual results will seldom equal estimates. 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 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

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 for the estimated value of gift cards that are not expected to be redeemed by customers ("gift card breakage") in proportion to the pattern of rights exercised by the customer. 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 allocation of transaction price to the plum loyalty obligation, which is the estimated reward tier value of a future redemption net of points management expects will go unredeemed, is based on a relative stand-alone selling price basis. The Company continues to monitor 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. Points revenue is included as part of total revenue in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss).

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 2019

Revenue from Contracts with Customers ("IFRS 15")

Effective in the first quarter of fiscal 2019, the Company adopted IFRS 15, which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and supersedes IAS 18, "Revenue," IAS 11, "Construction Contracts," and a number of revenue-related interpretations.

The Company adopted the standard on April 1, 2018, applying the requirements using the full retrospective transition method. The adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements other than on the Company's recognition of deferred loyalty program revenue and its sales return allowance.

Under IAS 18, loyalty revenue was allocated to plum points using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was deferred until the points were actually redeemed while the residual consideration was allocated to the goods sold and recognized as revenue. IFRS 15 stipulates that revenue will be allocated based on relative standalone selling prices between loyalty points and the goods on which points were earned. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be lower than the amounts allocated under the residual value method.

Under IAS 18, sales return allowance on the consolidated balance sheets was recognized on a net basis with no adjustment to current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the balance sheet line items noted below.

The impacts on the Company's balance sheet as at March 31, 2018 is as follows:

(thousands of Canadian dollars)	Balance at March 31, 2018	IFRS 15 Adjustment	**Adjusted March 31, 2018**
Assets			
Other assets	–	865	**865**
Deferred tax assets	35,563	(476)	**35,087**
Liabilities			
Accounts payable and accrued liabilities	176,479	865	**177,344**
Deferred revenue	8,807	(1,778)	**7,029**
Equity			
Retained earnings	166,807	1,302	**168,109**

The impacts on the Company's opening balance sheet as at April 2, 2017 are as follows:

(thousands of Canadian dollars)	Opening balance at April 2, 2017	IFRS 15 Adjustment	**Adjusted April 2, 2017**
Assets			
Other assets	–	794	**794**
Deferred tax assets	43,981	(424)	**43,557**
Liabilities			
Accounts payable and accrued liabilities	170,611	794	**171,405**
Deferred revenue	12,852	(1,585)	**11,267**
Equity			
Retained earnings	145,007	1,161	**146,168**

The impacts on the Company's statements of loss for the 13 and 52-week periods ended March 31, 2018 are as follows:

(thousands of Canadian dollars)	13-week period ended March 31, 2018	IFRS 15 Adjustment	**Adjusted 13-week period ended March 31, 2018**	52-week period ended March 31, 2018	IFRS 15 Adjustment	**Adjusted 52-week period ended March 31, 2018**
Revenue	215,323	40	**215,363**	1,079,425	193	**1,079,618**
Gross profit	92,684	40	**92,724**	475,331	193	**475,524**
Profit (loss) before income taxes	(15,341)	40	**(15,301)**	30,481	193	**30,674**
Income tax recovery (expense)	4,582	(11)	**4,571**	(8,681)	(52)	**(8,733)**
Net earnings (loss) for the period	(10,759)	29	**(10,730)**	21,800	141	**21,941**

This resulted in no change to the basic and diluted loss per share and an increase of $0.01 to the basic and diluted loss per share for the 13 and 52-week periods ended March 31, 2018.

Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 during the first quarter of fiscal 2019, which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and related amendments to IFRS 7, "Financial Instruments: Disclosures". The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The classification and measurement approach for financial assets and liabilities under IFRS 9 reflects the business model in which assets are managed and their cash flow characteristics. While the new approach results in changes to classification categories, there were no consequential measurement changes to the Company's financial instruments on adoption.

Financial Asset/Liability	Classification under IAS 39	Classification under IFRS 9
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	FVTPL	FVTPL

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or life time expected credit losses if there has been a significant increase in the credit risk on the instrument. The Company has determined that the adoption of IFRS 9 has not resulted in any additional impairment allowance for the 13 and 52-week periods ended March 30, 2019.

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's hedging relationships in place as at March 31, 2018 qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements.

The Company has applied IFRS 9 retrospectively, with the initial application date of April 1, 2018. As permitted by the transitional provisions of the standard, the Company elected not to restate comparative figures or note disclosures. Apart from the aforementioned hedge accounting considerations, there was no material impact to the Company's consolidated financial statements.

New Accounting Pronouncements

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 financial statements. For those contracts which meet the IFRS 16 definition of a lease, the Company will recognize a right-of-use asset and an associated lease liability, representing its obligation to make future lease payments. On a go-forward basis, there will be a decrease in operating expenses for the rent expense associated with IFRS 16 leases, an associated increase in depreciation for the amortization of the right-of-use asset recognized, and an increase in net interest expense for the accretion of the lease liability recorded. Expenses under IFRS 16 will be higher when leases are early in their term, as net interest expense is recognized on an amortized cost basis, while rent expenses under IAS 17 reflected straight-line basis. While the standard has no impact on total cash flows, there will be a change in presentation of the operating and financing cash flows on the statements of cash flows for the net interest expense associated with the lease liability.

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 intends to adopt the standard by applying the requirements using a modified retrospective method, with the cumulative effect of initial application recorded in opening retained earnings as at March 30, 2019 and no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients, and the Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease.

The Company will also elect to use the following exemptions proposed by the standard on adoption:

- the exclusion of short-term leases, contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

While the standard was initially adopted on March 31, 2019, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, IT infrastructure, and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at March 31, 2019.

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, disruptions in international trade, 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 and independent bookstores, other book superstores, regional multi-store operators, mass merchandisers, supermarkets, retail pharmacies, warehouse clubs, mail order clubs, internet booksellers, 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.

The general merchandise retail landscape also features 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 and maintain market share, Indigo's revenue could be adversely affected.

In both the book and general merchandise segments, increased efforts by new competitors and existing competitors, including the introduction of new and innovative products and services as well as aggressive expansion, merchandising or discounting by competitors, could reduce the Company's revenue, market share, and operating margins.

Consumer Trends

The Company's success largely depends on its ability to anticipate and respond to shifts in consumer trends in an agile manner. The general merchandise business is particularly susceptible to changing consumer preferences that cannot be predicted with certainty. If the Company is unable to adequately respond to changing consumer trends or sales forecasts that do not match customer demand, it could experience higher inventory markdowns or an inventory shortage, both of which would have an adverse effect on sales and profitability. This risk is mitigated by the Company's focus on building an assortment of innovative products which resonate with consumers, the breadth of the Company's product range across multiple categories, and its commitment to maintaining the book business as its core, a business which is less sensitive to changing consumer preferences.

Reliance on Third Parties in Omni-Channel Business

As e-commerce continues to become a larger component of the Company's omni-channel business, Indigo relies on third-party logistics partners, such as Canada Post, to fulfill sales transactions with its customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at the Company's logistics partners may adversely affect Indigo's business and financial results.

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 time-lines. These suppliers are impacted by, among other things, increases in labour and input costs, labour disputes and disrup-tions, regulatory changes, political or economic instability, natural disasters, trade restrictions, tariffs, currency exchange rates, transport costs and other factors. These 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 marketplace. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions to 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 con-tracts, 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 several 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 evolution of the Company's product assortment, namely general merchandise items, 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 general merchandise assortment, 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 cyberattacks, could disrupt the business, result in the disclosure or misuse of confidential or proprietary information, damage Indigo's brand and reputation, lead to temporary or permanent loss of data, increase the Company's remediation costs and legal liabilities, and impact its financial position and/or ability to achieve its strategic objectives. Although Indigo has business continuity plans and other safeguards in place, along with robust information security procedures, employee security awareness training and controls, the Company's business operations may be adversely affected by significant and widespread disruption to Indigo's physical 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 impacted and growth could be limited. The loss of the services of key personnel, particularly the Chief Executive Officer, 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 brands 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.

Intellectual Property

Infringement of the Company's intellectual property could negatively affect the Company's revenue, profitability and reputation. While the Company is not currently aware of any infringement or material challenges to the use of its trademarks and domain names in Canada or the United States, the Company has a strategy and processes in place to protect and vigorously defend its intellectual property.

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, tenant allowances receivable from landlords for renovations and lease inducements 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 30, 2019 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 sourcing and importation of books is governed by the Book Importation Regulations to the Copyright Act (Canada). Any changes to the existing regulatory framework may impact the Company's ability to secure and maintain favorable terms and access to essential products, which could negatively impact the Company's revenues and margins and its ability to compete in the marketplace. As well, the distribution and sale of books is a regulated cultural industry in which foreign investments to acquire control of an existing cultural business are subject to review under the Investment Canada Act. 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 or by acting as a constraint on the acquisition by foreign investors of Canadian retailers involved in a cultural business. An increased number of competitors could have an adverse effect on the Company's financial performance.

Compliance with Privacy Laws

A number of Canadian federal and provincial statutes, as well as corresponding U.S. federal 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 30, 2019.

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 30, 2019.

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 quarter and year ended on March 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company has determined that no material changes in internal controls over financial reporting have occurred in this period.

Cautionary Statement Regarding Forward-Looking Statements

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

Non-IFRS Financial Measures

The Company prepares its 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, significant renovations, permanent relocation, and material changes in square footage. Both measures are key performance indicators for the Company. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investments. The method of calculating adjusted EBITDA is consistent with that used in prior periods.

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

Independent Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

Opinion

We have audited the consolidated financial statements of Indigo Books & Music Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 30, 2019 and March 31, 2018, and the consolidated statements of earnings (loss) and comprehensive earnings (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 30, 2019 and March 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephanie Lamont.

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
May 28, 2019

Consolidated Balance Sheets

(thousands of Canadian dollars)	As at March 30, 2019	As at March 31, 2018[1]
ASSETS		
Current		
Cash and cash equivalents (note 6)	41,290	150,256
Short-term investments (note 6)	87,150	60,000
Accounts receivable	10,543	6,747
Inventories (note 7)	252,541	264,586
Prepaid expenses	5,802	4,124
Income taxes receivable	483	–
Derivative assets (note 8)	1,070	1,439
Other assets	853	865
Total current assets	399,732	488,017
Property, plant, and equipment, net (note 9)	125,906	82,314
Intangible assets, net (note 10)	32,527	24,215
Equity investments (note 22)	4,359	4,330
Deferred tax assets (note 12)	47,940	35,087
Total assets	610,464	633,963
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities (notes 4 and 21)	179,180	177,344
Unredeemed gift card liability	48,729	44,218
Provisions (note 13)	60	166
Deferred revenue (note 4)	7,636	7,029
Income taxes payable	–	152
Derivative liabilities (note 8)	–	327
Total current liabilities	235,605	229,236
Long-term accrued liabilities (note 21)	4,698	2,283
Long-term provisions (note 13)	45	45
Total liabilities	240,348	231,564
Equity		
Share capital (note 15)	225,531	221,854
Contributed surplus (note 16)	12,716	11,621
Retained earnings (note 4)	131,311	168,109
Accumulated other comprehensive income (note 8)	558	815
Total equity	370,116	402,399
Total liabilities and equity	610,464	633,963

See accompanying notes

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 4).

On behalf of the Board:

Heather Reisman
Director

Michael Kirby
Director

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

(thousands of Canadian dollars, except per share data)	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
Revenue (note 17)	**1,046,824**	1,079,618
Cost of sales	**(619,878)**	(604,094)
Gross profit	**426,946**	475,524
Operating, selling, and administrative expenses (notes 9, 10, and 17)	**(480,662)**	(448,909)
Operating profit (loss)	**(53,716)**	26,615
Net interest income	**3,220**	3,010
Share of earnings from equity investments (note 22)	**858**	1,049
Earnings (loss) before income taxes	**(49,638)**	30,674
Income tax recovery (expense) (note 12)		
Current	**–**	(489)
Deferred	**12,840**	(8,244)
Net earnings (loss)	**(36,798)**	21,941
Other comprehensive income (loss) (note 8)		
Items that are or may be reclassified subsequently to net earnings (loss):		
Net change in fair value of cash flow hedges [net of taxes of (897); 2018 – 897]	**2,439**	(2,648)
Reclassification of net realized (gain) loss [net of taxes of 908; 2018 – (1,194)]	**(2,471)**	3,268
Foreign currency translation adjustment [net of taxes of (6)]	**(225)**	–
Other comprehensive income (loss)	**(257)**	620
Total comprehensive earnings (loss)	**(37,055)**	22,561
Net earnings (loss) per common share (note 18)		
Basic	**($1.35)**	$0.82
Diluted	**($1.35)**	$0.81

See accompanying notes

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 4).

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Retained Earnings[1]	Accumulated Other Comprehensive Income	Total Equity[1]
Balance, April 1, 2017[1]	215,971	10,671	146,168	195	373,005
Net earnings for the period[1]	–	–	21,941	–	21,941
Exercise of options (notes 15 and 16)	5,883	(979)	–	–	4,904
Share-based compensation (note 16)	–	1,588	–	–	1,588
Directors' compensation (note 16)	–	341	–	–	341
Other comprehensive income (note 8)	–	–	–	620	620
Balance, March 31, 2018[1]	221,854	11,621	168,109	815	402,399
Balance, March 31, 2018[1]	**221,854**	**11,621**	**168,109**	**815**	**402,399**
Net loss for the period	**–**	**–**	**(36,798)**	**–**	**(37,798)**
Exercise of options (notes 15 and 16)	**3,617**	**(709)**	**–**	**–**	**2,908**
Directors' deferred share units converted (note 15)	**60**	**(60)**	**–**	**–**	**–**
Share-based compensation (note 16)	**–**	**1,514**	**–**	**–**	**1,514**
Directors' compensation (note 16)	**–**	**350**	**–**	**–**	**350**
Other comprehensive loss (note 8)	**–**	**–**	**–**	**(32)**	**(32)**
Foreign currency translation adjustment	**–**	**–**	**–**	**(225)**	**(225)**
Balance, March 30, 2019	**225,531**	**12,716**	**131,311**	**558**	**370,116**

See accompanying notes

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 4).

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
OPERATING ACTIVITIES		
Net earnings (loss) for the period	**(36,798)**	21,941
Adjustments to reconcile net earnings (loss) to cash flows from operating activities		
Depreciation of property, plant, and equipment (note 9)	**21,920**	19,074
Amortization of intangible assets (note 10)	**10,650**	7,922
Loss on disposal of capital assets (notes 9 and 10)	**2,088**	776
Share-based compensation (note 16)	**1,514**	1,588
Directors' compensation (note 16)	**350**	341
Deferred income tax expense (recovery) (note 12)	**(12,840)**	8,244
Disposal of assets held for sale (note 11)	**–**	1,037
Other	**(809)**	1,042
Net change in non-cash working capital balances (note 19)	**15,211**	(29,528)
Interest expense	**6**	10
Interest income	**(3,226)**	(3,020)
Share of earnings from equity investments (note 22)	**(858)**	(1,049)
Cash flows from (used for) operating activities	**(2,792)**	28,378
INVESTING ACTIVITIES		
Purchase of property, plant, and equipment (note 9)	**(67,505)**	(37,080)
Addition of intangible assets (note 10)	**(19,056)**	(16,871)
Change in short-term investments (note 6)	**(27,150)**	40,000
Distribution from equity investments (note 22)	**829**	1,233
Interest received	**3,225**	2,872
Investment in associate (note 22)	**–**	(2,714)
Cash flows used for investing activities	**(109,657)**	(12,560)
FINANCING ACTIVITIES		
Proceeds from share issuances (note 15)	**2,908**	4,904
Cash flows from financing activities	**2,908**	4,904
Effect of foreign currency exchange rate changes on cash and cash equivalents	**575**	(904)
Net increase (decrease) in cash and cash equivalents during the period	**(108,966)**	19,818
Cash and cash equivalents, beginning of period	**150,256**	130,438
Cash and cash equivalents, end of period	**41,290**	150,256

See accompanying notes

1 Certain prior period figures have been restated due to the adoption of IFRS 15 (refer to Note 4).

Notes to Consolidated Financial Statements

March 30, 2019

1. CORPORATE INFORMATION

Indigo Books & Music Inc. (the "Company" or "Indigo") is a corporation domiciled and incorporated under the laws of the Province of Ontario in Canada. The Company's registered office is located at 620 King Street West, Suite 400, Toronto, Ontario, M5V 1M6, Canada. The consolidated financial statements of the Company comprise the Company and its wholly-owned subsidiaries, Indigo Design Studio, Inc., Indigo Cultural Department Store Inc. ("Indigo U.S."), and YYZ Holdings Inc. ("YYZ"), along with equity investments 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 89 superstores (2018 – 86) under the *Indigo* and *Chapters* names, as well as 115 small format stores (2018 – 123) under the banners *Coles*, *Indigospirit*, and *The Book Company*. The Company also has retail operations in the United States through a wholly-owned subsidiary, operating its first retail store in Short Hills, New Jersey. 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 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 supports 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 using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on May 28, 2019.

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 30, 2019 and March 31, 2018 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 cash-generating unit ("CGU") exceeds its recoverable amount. Impairment losses are reversed if the recoverable amount of the capital asset, CGU, or group of CGUs exceeds its carrying amount, but only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. The Company uses judgment when identifying CGUs and when assessing for indicators of impairment or reversal.

Intangible assets

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

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") based on the value expected to go unredeemed and is determined in proportion to the pattern of rights exercised by the customer. 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.

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. The 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. SUMMARY OFSIGNIFICANT 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 of 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 subsidiaries 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.

Foreign Currency

The functional currency for each entity included in these consolidated financial statements is the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Assets and liabilities of the Company's U.S. operations have a functional currency of U.S. dollars and are translated into Canadian dollars at the exchange rate in effect at the reporting date. Revenues and expenses are translated into Canadian dollars at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive income (loss).

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.

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, distributions received, 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 original 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.

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 and U.S. 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. 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 30, 2019, 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. 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 30, 2019, 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, at fair value, or 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 intangible 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 control of goods has been transferred at the amount of consideration to which the company expects to be entitled. Revenue is recorded net of sales discounts, estimated returns, sales tax, environmental fees and amounts deferred related to the issuance of Plum points. Revenue is recognized when control of goods has been transferred (as described below) for each of the Company's revenue generating activities.

Retail sales

Revenue for retail customers is recognized when the product is delivered to the customer, which for the majority of retail transactions this occurs at time of purchase.

Online and kiosk sales

Revenue for online and kiosk customers is recognized when the product is shipped to customers.

Gift cards

The Company sells gift cards to its customers and recognizes the revenue as gift cards are redeemed for merchandise. A customer's non-refundable prepayment to the Company gives them a right to receive product in the future. However, historically customers do not exercise all of their contractual rights, which is referred to as breakage.

The Company determines its average gift card breakage rate based on historical redemption rates. Breakage income represents the estimated value of gift cards that is not expected to be redeemed by customers and is determined in proportion to the pattern of rights exercised by the customer. Gift card breakage is included in revenue in the Company's consolidated statements of earnings (loss) and comprehensive earnings (loss). Changes in estimated breakage should be accounted for by adjusting the contract liability to reflect the remaining rights expected to be redeemed.

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 consideration received between the loyalty program points and the merchandise on which the points were earned based on their relative stand-alone selling prices. 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 stand-alone selling price of the points issued is determined based on the estimated reward tier value, net of points that management expects will go unredeemed. The Company continues to monitor 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 to reduce estimation uncertainty in the consideration allocated to the loyalty contract right. 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. 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.

Non-derivative financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as fair value through profit and loss ("FVTPL"):

- the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as amortized cost as described above are measured at FVTPL.

Non-derivative financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

The Company designates its derivative financial assets and liabilities under a cash flow hedge program for its foreign currency exposures on a portion of its U.S. dollar denominated cash outflows. The forward contracts used for hedging are recognized at fair value. Subsequent to initial recognition, the forward contracts are measured at fair value and changes therein are accounted for as described in the derivative disclosure below.

Financial Asset/Liability	IFRS 9 Classification and Measurement
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Derivative instruments	FVTPL

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions using the best information available.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2: Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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; and

(ii) 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. The Company's portfolio of derivative financial instruments as at March 30, 2019 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, together with the methods that will be used to assess the effectiveness of the hedging relationship. 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. The Company has not made an election to exclude the time value component of forward contracts designated as cash flow hedges from the hedging relationship. 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).

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income (loss) is recognized immediately in net income.

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.

Accounting Standards Implemented in Fiscal 2019

Revenue from Contracts with Customers (“IFRS 15”)

Effective in the first quarter of fiscal 2019, the Company adopted IFRS 15, which provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and supersedes IAS 18, “Revenue,” IAS 11, “Construction Contracts,” and a number of revenue-related interpretations.

The Company adopted the standard on April 1, 2018, applying the requirements using the full retrospective transition method. The adoption of IFRS 15 did not have a material impact on the Company’s consolidated financial statements other than on the Company’s recognition of deferred loyalty program revenue and its sales return allowance.

Under IAS 18, loyalty revenue was allocated to plum points using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was deferred until the points were actually redeemed while the residual consideration was allocated to the goods sold and recognized as revenue. IFRS 15 stipulates that revenue will be allocated based on relative standalone selling prices between loyalty points and the goods on which points were earned. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be lower than the amounts allocated under the residual value method.

Under IAS 18, sales return allowance on the consolidated balance sheets was recognized on a net basis with no adjustment to current assets. Upon adoption of IFRS 15, the sales return allowance is recognized on a gross basis, resulting in an adjustment of the balance sheet line items noted below.

The impacts on the Company’s balance sheet as at March 31, 2018 is as follows:

(thousands of Canadian dollars)	Balance at March 31, 2018	IFRS 15 Adjustment	**Adjusted March 31, 2018**
Assets			
Other assets	–	865	**865**
Deferred tax assets	35,563	(476)	**35,087**
Liabilities			
Accounts payable and accrued liabilities	176,479	865	**177,344**
Deferred revenue	8,807	(1,778)	**7,029**
Equity			
Retained earnings	166,807	1,302	**168,109**

The impacts on the Company's opening balance sheet as at April 2, 2017 are as follows:

(thousands of Canadian dollars)	Opening balance at April 2, 2017	IFRS 15 Adjustment	**Adjusted April 2, 2017**
Assets			
Other assets	–	794	**794**
Deferred tax assets	43,981	(424)	**43,557**
Liabilities			
Accounts payable and accrued liabilities	170,611	794	**171,405**
Deferred revenue	12,852	(1,585)	**11,267**
Equity			
Retained earnings	145,007	1,161	**146,168**

The impacts on the Company's statements of earnings (loss) for the 13 and 52-week periods ended March 31, 2018 are as follows:

(thousands of Canadian dollars)	13-week period ended March 31, 2018	IFRS 15 Adjustment	**Adjusted 13-week period ended March 31, 2018**	52-week period ended March 31, 2018	IFRS 15 Adjustment	**Adjusted 52-week period ended March 31, 2018**
Revenue	215,323	40	**215,363**	1,079,425	193	**1,079,618**
Gross profit	92,684	40	**92,724**	475,331	193	**475,524**
Profit (loss) before income taxes	(15,341)	40	**(15,301)**	30,481	193	**30,674**
Income tax recovery (expense)	4,582	(11)	**4,571**	(8,681)	(52)	**(8,733)**
Net earnings (loss) for the period	(10,759)	29	**(10,730)**	21,800	141	**21,941**

This resulted in no change to the basic and diluted loss per share and an increase of $0.01 to the basic and diluted loss per share for the 13 and 52-week periods ended March 31, 2018.

Financial Instruments ("IFRS 9")

The Company adopted IFRS 9 during the first quarter of fiscal 2019, which replaces IAS 39 "Financial Instruments: Recognition and Measurement." The standard introduces new requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The classification and measurement approach for financial assets and liabilities under IFRS 9 reflects the business model in which assets are managed and their cash flow characteristics. While the new approach results in changes to classification categories, there were no consequential measurement changes to the Company's financial instruments on adoption.

IFRS 9 replaces the incurred loss model of IAS 39 with a model based on expected credit losses. Under the new standard, the loss allowance for a financial instrument will be calculated at an amount equal to 12-month expected credit losses, or life time expected credit losses if there has been a significant increase in the credit risk on the instrument. The Company has determined that the adoption of IFRS 9 has not resulted in any additional impairment allowance for the 13 and 52-week periods ended March 30, 2019.

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's risk management strategy and hedging activities are disclosed in the Company's 2018 Annual Report, Note 21 "Financial Risk Management" and in this Quarterly Report, Note 7 "Derivative Financial Instruments". The Company's hedging relationships in place as at March 31, 2018 qualified for hedge

accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements.

The Company has applied IFRS 9 retrospectively, with the initial application date of April 1, 2018. As permitted by the transitional provisions of the standard, the Company elected not to restate comparative figures or note disclosures. Apart from the aforementioned hedge accounting considerations, there was no material impact to the Company's consolidated financial statements.

5. NEW ACCOUNTING PRONOUNCEMENTS

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 financial statements. For those contracts which meet the IFRS 16 definition of a lease, the Company will recognize a right-of-use asset and an associated lease liability, representing its obligation to make future lease payments. On a go-forward basis, there will be a decrease in operating expenses for the rent expense associated with IFRS 16 leases, an associated increase in depreciation for the amortization of the right-of-use asset recognized, and an increase in net interest expense for the accretion of the lease liability recorded. Expenses under IFRS 16 will be higher when leases are early in their term, as net interest expense is recognized on an amortized cost basis, while rent expenses under IAS 17 reflected straight-line basis. While the standard has no impact on total cash flows, there will be a change in presentation of the operating and financing cash flows on the statements of cash flows for the net interest expense associated with the lease liability.

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 intends to adopt the standard by applying the requirements using a modified retrospective method, with the cumulative effect of initial application recorded in opening retained earnings as at March 30, 2019 and no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients, and the Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease.

The Company will also elect to use the following exemptions proposed by the standard on adoption:

- the exclusion of short-term leases, contracts for which the underlying asset is of low value,
- the exclusion of initial direct costs from the right-of-use assets on transition,
- the use of hindsight in determining lease term at the date of initial application,
- and the use of a single discount rate for a portfolio of leases with reasonably similar underlying characteristics.

While the standard was adopted on March 31, 2019, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, IT infrastructure, and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at March 31, 2019.

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

Cash and cash equivalents consist of the following:

(thousands of Canadian dollars)	March 30, 2019	March 31, 2018
Cash	**39,466**	67,709
Restricted cash	**1,593**	2,093
Cash equivalents	**231**	80,454
Cash and cash equivalents	**41,290**	150,256

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

As at March 30, 2019, the Company held short-term investments of $87.2 million (March 31, 2018 – $60.0 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 $616.4 million in fiscal 2019 (2018 – $603.1 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 $11.2 million in fiscal 2019 (2018 – $9.7 million). The amount of inventory with net realizable value equal to cost was $4.2 million as at March 30, 2019 (March 31, 2018 – $3.6 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 valuators with experience in financial markets.

During the fiscal year ended March 30, 2019, the Company entered into forward contracts with total notional amounts of C$153.1 million to purchase U.S. Dollar/Canadian Dollar currency pair forwards (March 31, 2018 – C$137.9 million). As at March 30, 2019, the Company had remaining contracts in place representing a total notional amount of C$66.9 million (March 31, 2018 – C$79.2 million) at an average forward rate of 1.31 (March 31, 2018 – 1.27). These contracts extend over a period not exceeding 12 months. There were no forecast transactions for which hedge accounting had been used in the previous period, but which were no longer expected to occur, or hedging relationships discontinued and restarted during the the fiscal year ended March 30, 2019, as well as in the prior year.

The total fair value of the contracts as at March 30, 2019 resulted in the recognition of a derivative asset of $1.1 million (March 31, 2018 – $1.4 million), and no derivative liability (March 31, 2018 – $0.3 million).

During the fiscal year ended March 30, 2019, the Company had a net gain (net of taxes) from the change in fair value of outstanding cash flow hedges of $2.4 million (March 31, 2018 – net loss (net of taxes) of $2.6 million). During the same period, the Company reclassified a net gain (net of taxes) from settled contracts of $2.5 million from other comprehensive income (loss) to inventory and expenses (March 31, 2018 – net loss (net of taxes) of $3.3 million). This resulted in no other comprehensive income for the fiscal year ended March 30, 2019 (March 31, 2018 – comprehensive income of $0.6 million).

Reclassified amounts resulting from hedge ineffectiveness, as well any realized foreign exchange amounts as a result of derivative financial instruments were both immaterial in the fiscal year ended March 30, 2019, as well as in the prior year.

9. PROPERTY, PLANT, AND EQUIPMENT

(thousands of Canadian dollars)	Furniture, fixtures, and equipment	Computer equipment	Leasehold improvements	Equipment under finance leases	Total
Gross carrying amount					
Balance, April 1, 2017	71,844	12,161	55,394	136	139,535
Additions	16,726	6,439	13,915	–	37,080
Disposals	(1,534)	(133)	(362)	(136)	(2,165)
Assets with zero net book value	(3,825)	(1,924)	(4,446)	–	(10,195)
Balance, March 31, 2018	83,211	16,543	64,501	–	164,255
Additions	**29,437**	**3,081**	**34,987**	**–**	**67,505**
Disposals	**(2,920)**	**(185)**	**(2,097)**	**–**	**(5,202)**
Assets with zero net book value	**(7,288)**	**(2,268)**	**(17,106)**	**–**	**(26,662)**
Balance, March 30, 2019	**102,440**	**17,171**	**80,285**	**–**	**199,896**
Accumulated depreciation and impairment					
Balance, April 1, 2017	35,874	5,829	32,621	133	74,457
Depreciation	7,551	2,458	9,062	3	19,074
Disposals	(872)	(73)	(314)	(136)	(1,395)
Assets with zero net book value	(3,825)	(1,924)	(4,446)	–	(10,195)
Balance, March 31, 2018	38,728	6,290	36,923	–	81,941
Depreciation	**8,970**	**3,116**	**9,834**	**–**	**21,920**
Disposals	**(1,436)**	**(108)**	**(1,665)**	**–**	**(3,209)**
Assets with zero net book value	**(7,288)**	**(2,268)**	**(17,106)**	**–**	**(26,662)**
Balance, March 30, 2019	**38,974**	**7,030**	**27,986**	**–**	**73,990**
Net carrying amount					
March 31, 2018	44,483	10,253	27,578	–	82,314
March 30, 2019	**63,466**	**10,141**	**52,299**	**–**	**125,906**

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 2019 for certain retail stores. Accordingly, the Company performed testing which did not result in impairment losses or reversals in fiscal 2019, similar to fiscal to 2018.

10. INTANGIBLE ASSETS

(thousands of Canadian dollars)	Computer application software	Internal development costs	Domain name	Retail lease	Total
Gross carrying amount					
Balance, April 1, 2017	16,887	11,846	75	–	28,808
Additions	7,073	5,204	3,387	1,207	16,871
Disposals	(6)	–	–	–	(6)
Assets with zero net book value	(3,732)	(3,821)	–	–	(7,553)
Balance, March 31, 2018	20,222	13,229	3,462	1,207	38,120
Additions	**12,461**	**6,595**	**–**	**–**	**19,056**
Disposals	**(171)**	**–**	**(75)**	**–**	**(246)**
Assets with zero net book value	**(4,004)**	**(4,338)**	**–**	**–**	**(8,342)**
Balance, March 30, 2019	**28,508**	**15,486**	**3,387**	**1,207**	**48,588**
Accumulated depreciation and impairment					
Balance, April 1, 2017	7,354	6,182	–	–	13,536
Amortization	4,326	3,575	–	21	7,922
Assets with zero net book value	(3,732)	(3,821)	–	–	(7,553)
Balance, March 31, 2018	7,948	5,936	–	21	13,905
Amortization	**6,452**	**4,074**	**–**	**124**	**10,650**
Disposals	**(151)**	**–**	**–**	**–**	**(151)**
Assets with zero net book value	**(4,005)**	**(4,338)**	**–**	**–**	**(8,343)**
Balance, March 30, 2019	**10,244**	**5,672**	**–**	**145**	**16,061**
Net carrying amount					
March 31, 2018	12,274	7,293	3,462	1,186	24,215
March 30, 2019	**18,264**	**9,814**	**3,387**	**1,062**	**32,527**

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 2019 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 2019 (2018 – no impairment losses or reversals).

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 72 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 30, 2019, the Company has recorded $47.9 million of deferred tax assets (March 31, 2018 – $35.1 million of deferred tax assets). The Company has reviewed the deferred tax asset balance alongside the company's future income projections, and concluded that the asset should continue to be recognized.

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 30, 2019	March 31, 2018[1]
Reserves and allowances	1,452	761
Tax loss carryforwards	21,613	16,924
Corporate minimum tax credit	3,379	3,374
Book amortization in excess of capital cost allowance	21,783	14,326
Cash flow hedges	(287)	(298)
Total deferred tax assets	47,940	35,087

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.

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

(thousands of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
Current income tax expense	–	512
Adjustment for prior periods	–	(23)
	–	489
Deferred income tax expense (recovery)		
Origination and reversal of temporary differences	(8,170)	2,136
Deferred income tax expense (recovery) relating to change in loss carryforwards	(4,669)	6,139
Adjustment to future income tax assets resulting from a change in substantively enacted tax rates and expected pattern of reversal	(65)	(201)
Other, net	64	170
Total income tax expense (recovery)	(12,840)	8,733

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.

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 30, 2019	%	52-week period ended March 31, 2018[1]	%
Earnings (loss) before income taxes	**(49,638)**		30,674	
Tax at combined federal and provincial tax rates	**(13,303)**	**26.8%**	8,221	26.8%
Tax effect of expenses not deductible for income tax purposes	**629**	**(1.3%)**	644	2.1%
Adjustment to future income tax assets resulting from reduction in substantively enacted tax rates and expected pattern of reversal	**(65)**	**0.1%**	(201)	(0.7%)
Other, net	**101**	**0.2%**	69	0.3%
	(12,840)	**25.7%**	8,733	28.5%

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.

As at March 30, 2019, the Company has Canadian non-capital tax loss carryforwards of $64.2 million that expire in 2031, and $9.9 million that expire in 2039. The company also has $5.7 million of U.S. federal unused non-capital tax losses that do not expire, and $1.6 million of U.S. state unused non-capital tax losses that expire in 2039.

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 30, 2019	52-week period ended March 31, 2018
Balance, beginning of period	**211**	161
Charged	**–**	75
Utilized / released	**(106)**	(25)
Balance, end of period	**105**	211

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 30, 2019, the Company had operating lease commitments in respect of its stores, support office premises, and certain equipment. The leases expire at various dates between calendar 2019 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	5.0
1-5 years	18.8
After 5 years	13.6
Total	37.4

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
2020	65.4
2021	56.4
2022	50.0
2023	44.4
2024	40.6
Thereafter	147.8
Total obligations	404.6

(b) Legal Claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at March 30, 2019 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 common shares, voting

	52-week period ended March 30, 2019		52-week period ended March 31, 2018	
	Number of shares	Amount C$ (thousands)	Number of shares	Amount C$ (thousands)
Balance, beginning of period	**26,800,609**	**221,854**	26,351,484	215,971
Issued during the period				
Directors' deferred share units converted	**4,021**	**60**	–	–
Adjustment for share exchange per 2001 merger agreement	**519**	**–**	–	–
Options exercised	**331,237**	**3,617**	449,125	5,883
Balance, end of period	**27,136,386**	**225,531**	26,800,609	221,854

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 30, 2019 is 3,570,458. 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 2019, the pre-forfeiture value of the options granted was $1.8 million (2018 – $2.7 million). The weighted average fair value of options issued in fiscal 2019 was $3.19 per option (2018 – $3.76 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 30, 2019	52-week period ended March 31, 2018
Black-Scholes option pricing assumptions		
Risk-free interest rate	**2.2%**	1.3%
Expected volatility	**27.8%**	31.4%
Expected time until exercise	**3.0 years**	3.0 years
Expected dividend yield	**–**	–
Other assumptions		
Forfeiture rate	**26.4%**	27.1%

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

	52-week period ended March 30, 2019		52-week period ended March 31, 2018	
	Number #	Weighted average exercise price C$	Number #	Weighted average exercise price C$
Outstanding options, beginning of period	**1,788,875**	**14.36**	1,663,925	12.60
Granted	**560,000**	**14.75**	715,000	16.50
Forfeited	**(280,045)**	**15.40**	(138,425)	16.14
Expired	**–**	**–**	(2,500)	8.00
Exercised	**(331,237)**	**9.02**	(449,125)	10.74
Outstanding options, end of period	**1,737,593**	**15.34**	1,788,875	14.36
Options exercisable, end of period	**841,253**	**14.67**	692,630	11.41

A summary of options outstanding and exercisable is presented below:

	March 30, 2019				
	Outstanding			Exercisable	
Range of exercise prices C$	Number #	Weighted average exercise price C$	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price C$
10.09 – 13.95	**327,463**	**10.52**	**1.0**	**327,463**	**10.52**
13.96 – 15.38	**425,100**	**14.75**	**4.4**	**–**	**–**
15.39 – 16.35	**423,350**	**16.00**	**3.4**	**172,550**	**16.00**
16.36 – 18.20	**411,680**	**17.92**	**2.4**	**290,240**	**17.91**
18.21 – 18.40	**150,000**	**18.40**	**3.6**	**51,000**	**18.40**
10.09 – 18.40	**1,737,593**	**15.34**	**3.0**	**841,253**	**14.67**

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 2019 Directors' compensation was in the form of DSUs (2018 - all DSUs).

The number of shares reserved for issuance under this plan is 500,000. The Company issued 27,844 DSUs with a value of $0.4 million during fiscal 2019 (2018 - 20,100 DSUs with a value of $0.3 million). The number of DSUs to be issued to each Director is based on a set fee schedule. The grant date fair value of the outstanding DSUs as at March 30, 2019 was $4.1 million (March 31, 2018 - $3.8 million) and was recorded in contributed surplus. The fair value of DSUs is equal to the traded price of the Company's common shares on the grant date.

17. SUPPLEMENTARY OPERATING INFORMATION

Supplemental product line revenue information:

(thousands of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
Print[2]	580,654	593,085
General merchandise[3]	451,499	455,959
Other[4]	14,671	30,574
Total	1,046,824	1,079,618

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.
2 Includes books, magazines, newspapers, and related shipping revenue.
3 Includes lifestyle, paper, toys, electronics, eReaders, eReader accessories, and related shipping revenue.
4 Includes cafés, irewards, gift card breakage, revenue from unredeemed plum points ("plum breakage"), corporate sales, and Kobo revenue share.

The following table summarizes net revenue by channel:

(thousands of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018[1]
Superstores	711,360	728,692
Small format stores	144,844	143,559
Online (including store kiosks)	175,948	176,793
Other[2]	14,672	30,574
Total	1,046,824	1,079,618

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.
2 Includes cafés, irewards, gift card breakage, plum breakage, corporate sales, and Kobo revenue share.

Supplemental operating and administrative expenses information:

(thousands of Canadian dollars)	52-week period ended March 30, 2019	52-week period ended March 31, 2018
Wages, salaries, and bonuses	196,183	190,468
Short-term benefits expense	20,589	20,097
Termination benefits expense	6,262	4,049
Retirement benefits expense	1,863	1,723
Share-based compensation	1,514	1,588
Total employee benefits expense	226,411	217,925

Termination benefits arise when the Company terminates certain employment agreements.

Minimum lease payments recognized as an expense during fiscal 2019 were $65.6 million (2018 – $62.5 million). Contingent rents recognized as an expense during fiscal 2019 were $1.9 million (2018 – $2.0 million).

18. EARNINGS (LOSS) PER SHARE

Earnings (loss) 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 30, 2019	52-week period ended March 31, 2018
Weighted average number of common shares outstanding, basic	27,354,358	26,849,418
Effect of dilutive securities – stock options	–	404,569
Weighted average number of common shares outstanding, diluted	**27,354,358**	27,253,987

The Company's stock options were anti-dilutive as the company reported a loss for the 52-week period ended March 30, 2019, therefore, were not included in the diluted loss per share calculations. For the comparative period ended March 31, 2018, 1,121,900 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 30, 2019	52-week period ended March 31, 2018[1]
Accounts receivable	(3,796)	701
Other assets	12	–
Inventories	12,045	(33,010)
Income taxes receivable	(483)	–
Prepaid expenses	(1,678)	7,582
Accounts payable and accrued liabilities (current and long-term)	4,251	5,773
Unredeemed gift card liability	4,511	(6,178)
Provisions (current and long-term)	(106)	50
Income tax payable	(152)	(208)
Deferred revenue	607	(4,238)
Net change in non-cash working capital balances	**15,211**	(29,528)

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 for additional information.

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 INSTRUMENTS AND 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 is exposed to foreign exchange risk on foreign currency denominated transactions, monetary assets and liabilities denominated in a foreign currency, and net investments in foreign operations located in the United States. The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to customers is set in Canadian dollars. The majority of the Company's foreign currency risk is concentrated in this area, as a significant amount of the Company's general merchandise inventory purchases are denominated in U.S. dollars and the Company has a New York office that incurs U.S. dollar expenses. The Company also has a retail location in New Jersey that generates sales in U.S. dollars, reducing the Company's overall net exposure.

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 2019, the effect of foreign currency translation on comprehensive earnings was a loss of $0.2 million (2018 – no translation adjustment recorded), and the effect of foreign currency transactions on net earnings was a loss of $0.2 million (2018 – loss of $0.8 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 30, 2019 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	150,914	28,266	–	179,180
Unredeemed gift card liability	48,729	–	–	48,729
Provisions	–	60	–	60
Long-term accrued liabilities	–	–	4,698	4,698
Long-term provisions	–	–	45	45
Total	199,643	28,326	4,743	232,712

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 2019, the Company received $0.8 million (2018 - $1.2 million) of distributions from Calendar Club.

In 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 1, 2017	1,800
Equity income from Calendar Club	1,087
Distributions from Calendar Club	(1,233)
Balance March 31, 2018	1,654
Equity Income from Calendar Club	**924**
Distributions from Calendar Club	**(829)**
Balance March 30, 2019	**1,749**

Changes in the carrying amount of Unplug were as follows:

(thousands of Canadian dollars)	Carrying value
Balance, April 1, 2017	–
Investment in Unplug	2,714
Equity loss from Unplug	(38)
Balance March 31, 2018	2,676
Equity loss from Unplug	**(66)**
Distributions from Unplug	**–**
Balance March 30, 2019	**2,610**

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 30, 2019	52-week period ended March 31, 2018
Wages, salaries, and bonus	**5,626**	7,653
Short-term benefits expense	**207**	168
Termination benefits expense	**1,997**	–
Retirement benefits expense	**86**	56
Share-based compensation	**1,110**	986
Directors' compensation	**350**	341
Total remuneration	**9,376**	9,204

Transactions with Shareholders

During fiscal 2019, 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 2019, the Company paid $3.5 million for these transactions (2018 – $7.0 million). As at March 30, 2019, Indigo had $0.2 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 (March 31, 2018 – 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 into other transactions with the retirement plan.

Transactions with Associates

Calendar Club is a seasonal operation that is dependent on the November/December holiday sales season to generate revenue. During the year, the Company loans cash to Calendar Club for working capital requirements and Calendar Club repays the loans once profits are generated in the third quarter. In fiscal 2019, Indigo loaned $16.4 million to Calendar Club (2018 – $14.9 million). All loans were repaid in full as at March 30, 2019.

The Company had immaterial transactions with Unplug during the period.

24. SUBSEQUENT EVENTS

In May 2019, the company made the decision to repatriate its global sourcing and product development functions from its wholly-owned subsidiary Indigo Design Studio, Inc. in New York to its home office in Toronto, Ontario. This organizational change is part of the company's broader cost-cutting and productivity improvement initiatives, and will result in further integration of these functions within the business. The financial effect of this organizational change cannot be determined at the date of approval of these financial statements.

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

As at May 28, 2019

EXECUTIVE MANAGEMENT

Heather Reisman
Chair and Chief Executive Officer

Kirsten Chapman
President

Gildave (Gil) Dennis
Chief Operating Officer

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

Bahman (Bo) Parizadeh
Chief Technology 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 (financial information in millions of Canadian dollars, except per share data)	**March 30, 2019**	March 31, 2018[1]	April 1, 2017[1]	April 2, 2016[1]	March 28, 2015[1]
SELECTED STATEMENT OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) INFORMATION					
Revenue					
Superstores	**711.4**	728.6	702.1	695.3	625.2
Small format stores	**144.8**	143.6	140.7	140.2	127.8
Online	**175.9**	176.8	148.2	133.3	114.0
Other	**14.7**	30.6	29.0	25.6	28.6
Total revenue	**1,046.8**	1,079.6	1,020.0	994.4	895.6
Adjusted EBITDA[2,3]	**(19.1)**	55.2	52.4	43.3	20.7
Earnings (loss) before income taxes	**(49.6)**	30.7	29.2	22.3	(3.0)
Net earnings (loss)	**(36.8)**	21.9	21.0	28.8	(3.3)
Net earnings (loss) per common share	**($1.35)**	$0.82	$0.80	$1.11	($0.13)
SELECTED CONSOLIDATED BALANCE SHEET INFORMATION					
Working capital	**164.1**	258.8	248.9	218.6	199.3
Total assets	**610.5**	634.0	609.3	584.6	539.0
Long-term debt (including current portion)	**–**	–	–	0.1	0.2
Total equity	**370.1**	402.4	373.3	345.3	312.2
Weighted average number of shares outstanding	**27,354,358**	26,849,418	26,384,775	25,949,068	25,722,640
Common shares outstanding at end of period	**27,136,386**	26,800,609	26,351,484	25,797,351	25,495,289
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**89**	86	89	88	91
Small format stores	**115**	123	123	123	127
Selling square footage at end of period (in thousands)					
Superstores	**1,962**	1,887	1,953	1,925	2,019
Small format stores	**287**	308	304	305	311
Comparable sales growth					
Total retail and online	**(1.1%)**	6.2%	4.1%	12.9%	6.5%
Superstores	**(1.8%)**	4.0%	2.9%	12.8%	6.8%
Small format stores	**1.2%**	2.4%	0.9%	10.9%	0.8%
Sales per selling square foot					
Superstores	**363**	386	360	361	310
Small format stores	**504**	467	463	460	411

1 Certain balances were restated as a result of IFRS 15 adjustments. Refer to Note 4 of the consolidated financial statements for additional information.
2 Earnings before interest, taxes, depreciation, amortization, impairment, asset disposals, and equity investments.
3 See "Non-IFRS Financial Measures" in the Company's Management Discussion and Analysis section of the Annual Report.

Investor Information

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Director, Public Relations
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STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

IDG

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Email: inquiries@astfinancial.com
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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 11, 2019 at 10:00 a.m. at
Torys LLP
79 Wellington Street West, 33rd Floor
Toronto, Ontario
Canada M5K 1N2

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Indigo's Commitment to Communities Across Canada

The Indigo Love of Reading Foundation (the "Foundation") exists to enrich the lives of Canadian children by providing funds through the donations of Indigo, its leadership, its customers, its employees, and suppliers to support the purchase of new and engaging books and educational resources for the libraries of high-needs elementary schools. Since 2004, the Foundation has committed over $31 million in more than 3,000 high-needs schools, impacting over one million children. The Foundation runs two signature programs each year. In May 2019, 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 2018, the Indigo Adopt a School program contributed over $1.1 million to more than 600 schools across Canada, impacting more than 200,000 children. In addition, in celebration of World Book Day on April 23, 2019, the Indigo Love of Reading Foundation, partnering with Indigo, donated 50,000 classic books to Canadian high-needs elementary schools across Canada.

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.

BOOKS
GIFTS
ART
IDEAS
DESIGN
STYLE

CULTURE
CONNECTION
COMMUNITY

INSPIRE
INFORM
INDULGE
INDIGO

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