ANNUAL REPORT

FOR THE 53-WEEK PERIOD ENDED APRIL 3, 2010

"I believe that imagination is stronger than knowledge. That myth is more potent than history. That dreams are more powerful than facts. That hope always triumphs over experience. That laughter is the only cure for grief. And I believe that love is stronger than death."

– Robert Fulghum

Indigo

Books & Music Inc.

www.indigo.ca

The Indigo Mission

To provide booklovers and those they care about with the most inspiring retail and online environments in the world for books and life enriching products and services.

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

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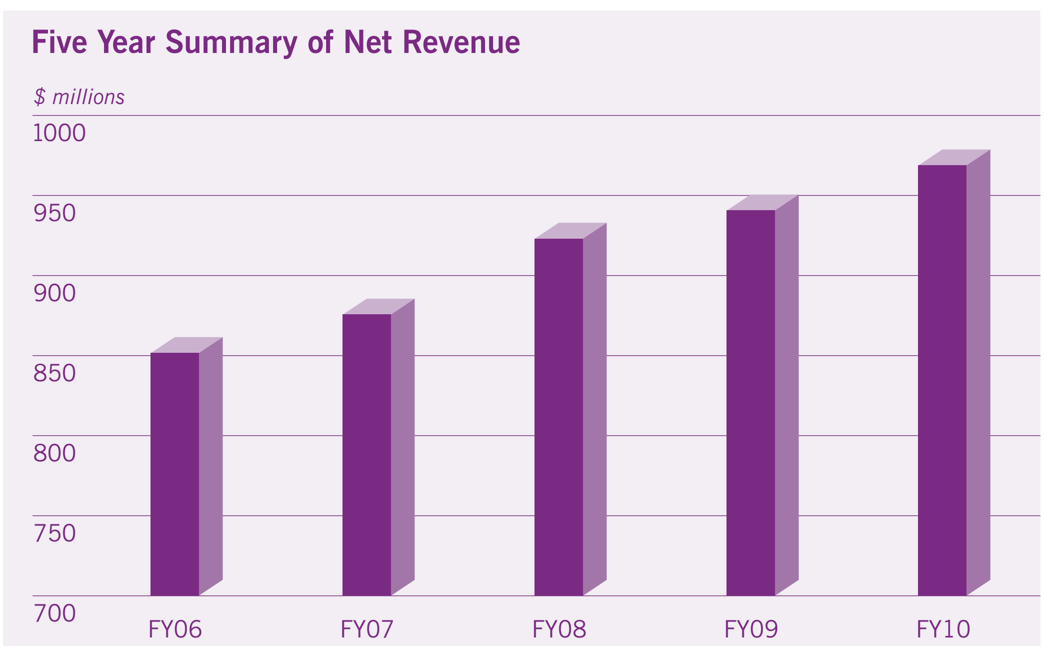
Report of the CEO

Dear Shareholder,

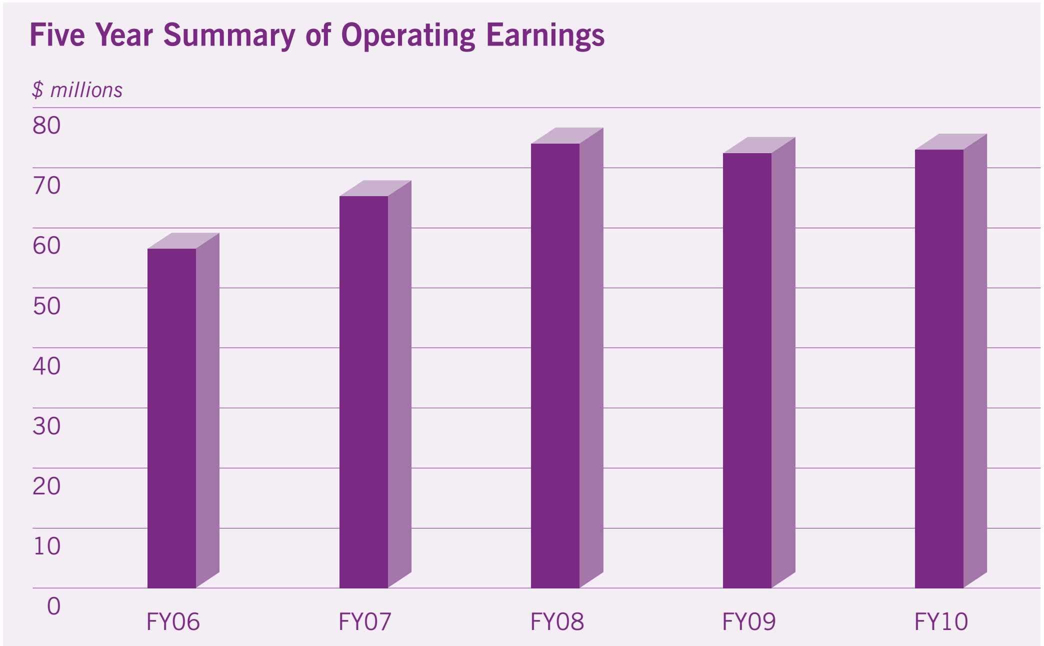
There is something totally anachronistic about traditional CEO Letters to Shareholders, designed as they are to report on a year fully past. In an age when news is reported by the minute on blogs and Twitter, the traditional Annual Letter to Shareholders, distributed a full quarter after the completion of the year, is nothing short of a dusty relic.

Rather than write only about the fiscal 2010 year, which is now long over, I will use this opportunity to put in perspective what is happening in our industry and bring you up to date with how we are responding to the opportunities and challenges we face.

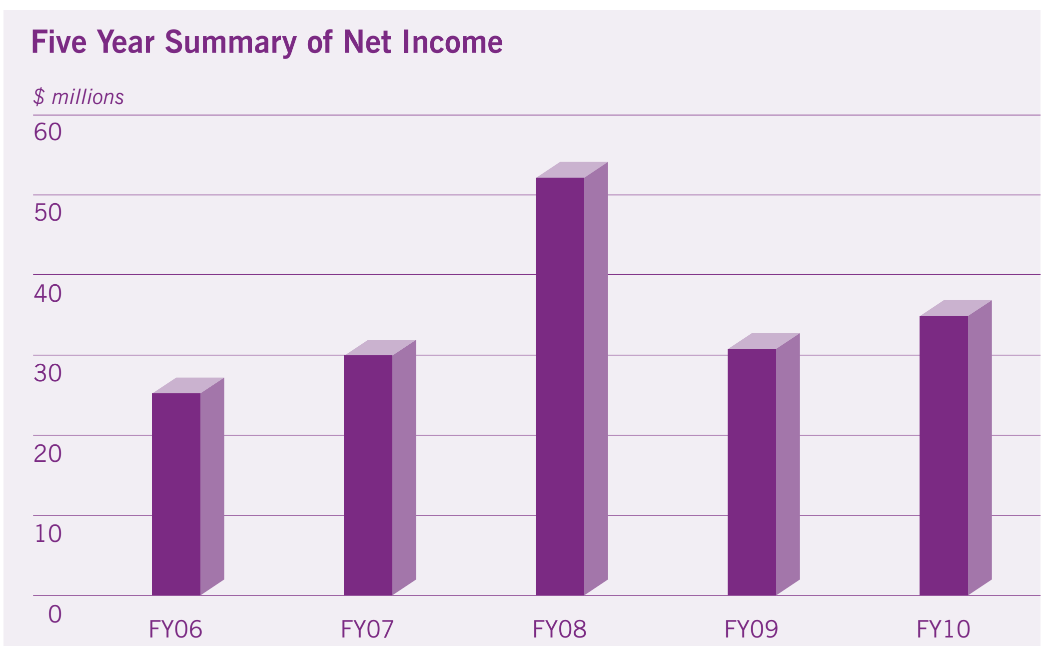
Revenue for the year was up 3.0% driven by new store openings, strong growth in our Gift and Toy businesses, and a 53rd week. On a normalized 52-week basis, our Superstores posted 0.6% same store growth. A small note, this growth was achieved in a year with no major hits and when we were up against last year's phenomenally successful *Twilight* series.



Operating Earnings or EBITDA grew $0.5 million over last year, despite heavy operating investment for us, particularly in the launch and growth of Kobo. We are pleased that operating earnings from the core business were strong enough to support this important initiative.



Net Income was up $4.3 million over last year. In addition to our stronger operating earnings, we benefited from a gain on the spin out of Kobo into a separate company, and on a reduction in our taxes, resulting from a transaction we completed in fiscal 2009.



When Indigo was first launched we set ourselves a bold target – to become the best retailer in the world for booklovers and their friends. We established clear benchmarks to mark our progress toward that goal: consumer affection ratings; EBITDA and profit as a percentage of sales; market share; sales per square foot; etc. By fiscal 2009 and again in fiscal 2010, Indigo ranked number one in our industry on all these key metrics. By rights we should have some coasting time…but this is not the case.

Nothing stands still, even an industry as historically stable as the book business. In fact, our industry is about to move into its most dynamic phase since the invention of the printing press. Fiscal 2010 marked the true beginning of the digital age for books. All over the world people are buzzing about e-books and e-readers. Authors, publishers, electronics manufacturers, book retailers and electronic retailers are eyeing the exploding opportunity in digital content. And Indigo is at the forefront of this new world. I will take some time in this Report to bring you up to date with what we are doing in this area.

At the same time, I want to point out that physical books will not disappear – because they won't. There is something beautiful and intrinsically valuable about a physical book. We like holding them, reading them, collecting them, sharing them, displaying them on our coffee tables and nightstands. But, for sure we must adapt our physical stores to the transition that will take place due to the emergence of e-reading.

Indigo & Chapters…The world's first cultural department stores

In the year just past and continuing into this new fiscal year, our focus in the retail superstore network is on evolving the merchandise mix to anticipate the transition of some percentage of our sales to digital format.

Our vision is as the world's first cultural department store – an emporium which will always have books at its heart and soul but which will also provide our customers with gift and lifestyle products that reflect and respond to key cultural trends in writing, art, music, technology and design. Toward this end, we are continuing to expand our gift and lifestyle offering, and to introduce new categories. Just recently we launched our Kobo e-readers and related e-reading accessories. Over the course of the upcoming year consumers will experience more new additions to our mix.

This past year we also took steps to establish our own product development capability putting us on a path to expand our proprietary merchandise. Our goal remains: to offer our customers a truly joyful assortment of unique, affordable and cherished items for gifting and for personal use.

We are clearly still in the early stage of the transition opportunity before us. We will carefully and thoughtfully continue to introduce new categories always guided by a very clear focus on who our customers are and what is of value.

Our superstores continue to be a huge draw for families with children. This year we further expanded our baby and kids' offerings. By the close of the year, 30 superstores had expanded baby shops and full toy shops integrated into our book sections. By the end of 2011 most of our large format stores will have full-line toy experiences. Indigo and Chapters are quickly emerging as the leading specialty toy shops in Canada with a highly favourable rating from our customers.

Driving Productivity Improvement

While a key focus in our retail business is on evolving to meet the emerging needs of customers – an equally key area of focus is on driving productivity improvements. Pressure on pricing is a constant in today's economy. New formats and new competitors are the reality. The challenge to us, as to all in business, is to continually look for innovative ways to drive costs downs while improving what we deliver to customers. For this reason we have a number of key initiatives related to improving productivity. In particular we currently have three major supply chain productivity initiatives underway designed to deliver improved operating margins.

Kobo

This past year we formally entered the e-reading market globally. After a few months of incubating our e-reading strategy within Indigo, we took the step of spinning out the initiative into a fully independent company – www.kobobooks.com. To best position ourselves for global expansion we sold 42% of the company to a group of shareholders with the ability to accelerate our growth in key international markets including the United States, Europe, the Far East, Australia and Singapore. Kobo has a strong leadership team, many of whom came from Indigo, and we at Indigo remain deeply engaged with the Kobo organization.

Over the last several months, Kobo has established itself as a leading player in this field. Both the Kobo reading service – available as a free application download through iPhone, iPad, Blackberry, www.indigo.chapters.ca and www.kobobooks.com – and the Kobo e-reader, have been hailed by leading technology journalists as the entrant to watch in this field. The Kobo e-reader hit the Canadian market in May 2010 to rave reviews and it will shortly be launched in Hong Kong, Australia, New Zealand, Singapore, and the United States. In addition, the Kobo reading service will be the service of choice on many new e-readers scheduled to hit the U.S. market this fall.

Within Canada, Indigo will take the lead in marketing digital downloads of books through www.indigo.chapters.ca and through www.kobobooks.com. Other Canadian retailers, including Wal-Mart, will also showcase our e-readers and customers who purchase these readers will be able to access the Kobo reading service directly through both websites.

We are proud and excited to be participating at the very nascent stages of this e-reading revolution. We look forward to reporting on advances as the year unfolds.

People

Indigo has always been, and continues to be a very people intensive business. Every year, thousands of employees touch millions of customers.

We are fortunate to have an extraordinary group of employees, many of whom have spent their entire careers with this Company – others who have brought great experience gained in other top quality organizations. As CEO I receive an inordinate number of letters from customers letting me know, in one way or another, how truly delighted they are with the experience they have in our stores or online. I want to take the opportunity in this letter to say a special thank you to everyone who works in this Company. With dedication and passion, you have built this Company from the ground up. It is a privilege to come to work with you every day.

Indigo Love of Reading Foundation

This year marks the sixth anniversary of the Love of Reading Foundation; the organization we established to support literacy and a love of reading in high-needs public schools across the country.

It is a sad, but too true fact, that provincial governments have starved the public school system of funds for their libraries. In economically challenged communities this underfunding has had a serious impact. Our overall objective with the Indigo Love of Reading Foundation is to fully fund as many schools as we can each year. Recently, with our annual $1.5 million donation, we brought 20 new schools into the program. This latest annual donation brings the total amount of money that Indigo has contributed to inspiring young readers to $9 million.

We know from our work with principals and teachers over the last six years that we are changing the lives of thousands of children.

I want to take this opportunity to thank all of the educators with whom we work. You are the unsung heroes in our country. I also want to thank all of our employees and customers, whose work and patronage makes these donations possible.

Looking Forward

Nothing on the horizon suggests that there are easy wins in our business or any other. As the world becomes more connected it also becomes more competitive, more dependent upon creativity and innovation. To be sure we have our work cut out for us in the year ahead. But, we also have a clear vision of who we are and where we are going. I look forward to reporting on our progress in this Report next year.

Heather Reisman

Heather Reisman
Chair and Chief Executive Officer

Management's Responsibility for Financial Reporting

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

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

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

Heather Reisman
Chair and Chief Executive Officer

Jim McGill
Chief Operating Officer and Chief Financial Officer

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 31, 2010 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 53-week period ended April 3, 2010 and the 52-week period ended March 28, 2009. It should be read in conjunction with the consolidated financial statements and notes contained in the attached Annual Report. 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 retailer, operating stores in all 10 provinces and one territory in Canada and offering online sales through its *www.chapters.indigo.ca* website. As at April 3, 2010, the Company operated 96 superstores under the banners *Chapters*, *Indigo* and the *World's Biggest Bookstore*, 150 small format stores, under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks* and *The Book Company* and one new concept store under the banner *Pistachio*. During fiscal 2010, the Company opened six superstores and no small format stores. The Company closed five small format stores and one Pistachio store during fiscal 2010. The Company has a 50% interest in Calendar Club of Canada Limited Partnership ("Calendar Club"), which operates seasonal kiosks and year-round stores in shopping malls across Canada.

In February 2009, Indigo launched *Shortcovers* (*www.shortcovers.com*), a new digital destination offering online and mobile service that provides instant access to books, articles and blogs. On December 14, 2009, Indigo transferred the net assets of *Shortcovers* into a new company, Kobo Inc. ("Kobo"). The *Shortcovers* website was renamed to *www.kobobooks.com*. Kobo secured $16.0 million in funding from strategic partners, including $5.0 million from Indigo. Indigo retained 57.7% ownership of Kobo.

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

The weighted average number of common shares outstanding for the current year was 24,549,622 as compared to 24,674,523 last year. As at May 31, 2010, the number of outstanding common shares was 24,744,915 with a book value of $198.7 million. The number of common shares reserved for issuance under the employee stock option plan is 2,224,492. There were 1,823,942 stock options outstanding of which 856,942 were exercisable.

Investment in Kobo

On December 14, 2009, Indigo transferred all *Shortcovers* assets to Kobo. Net assets with a carrying amount of $3.9 million were exchanged for 10,000,000 Kobo common shares. This transfer was accounted for as a related-party transaction at carrying value.

On December 15, 2009, Kobo secured $5.0 million of funding from Indigo and $11.0 million of funding from unrelated investors (collectively, the "Syndicate"). Common shares were issued to Indigo and the Syndicate at a price of $1.00 per common share. Indigo holds a total of 15,000,000 common shares of Kobo resulting in 57.7% ownership. The Syndicate invested a total of $11.0 million in exchange for 11,000,000 common shares and 42.3% ownership in Kobo. Indigo retains control over Kobo and continues to consolidate Kobo in the Company's consolidated financial statements. Non-controlling interest related to the net assets of the Syndicate have been reflected separately on the Company's consolidated balance sheets and Syndicate participation in Kobo operating losses for this fiscal year has been recorded as an increase to consolidated earnings.

Kobo was originally a wholly-owned subsidiary of Indigo and the issuance of additional Kobo shares to the Syndicate diluted Indigo's ownership to 57.7% and resulted in a dilution gain of $3.0 million for Indigo. The transaction also resulted in a $0.9 million deemed disposition of Indigo's existing consolidated goodwill. As part of this transaction, Indigo received a $1.0 million reimbursement of Kobo expenses which was included in the calculation of the recognized dilution gain.

Results of Operations

The following three tables summarize selected financial and operational information for the Company for the periods indicated. The classification of financial information presented below is specific to Indigo and may not be comparable to that of other retailers. The selected financial information is derived from the audited consolidated financial statements for the 53-week period ended April 3, 2010 and the 52-week periods ended March 28, 2009 and March 29, 2008.

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

(millions of dollars)	FY10	% Revenues	FY09	% Revenues
Revenues	968.9	100.0%	940.4	100.0%
Cost of sales	535.8	55.3%	530.3	56.4%
Cost of operations	274.9	28.4%	264.5	28.1%
Selling and administrative expenses	85.2	8.8%	73.1	7.8%
EBITDA[1]	73.0	7.5%	72.5	7.7%

1 Earnings before interest, taxes, depreciation, amortization, non-controlling interest and non-recurring items. Also see "Non-GAAP Financial Measures".

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

(thousands of dollars, except per share data)	53-week period ended April 3, 2010	52-week period ended March 28, 2009	52-week period ended March 29, 2008
Revenues			
Superstores	670,542	634,727	620,036
Small format stores	157,418	166,225	159,724
Online (including store kiosks)	92,180	95,232	101,345
Other	48,787	44,215	41,773
	968,927	940,399	922,878
Net earnings	34,923	30,650	52,808
Total assets	519,842	487,506	421,004
Long-term debt (including current portion)	3,037	5,006	6,028
Working capital	106,379	87,082	76,562
Basic earnings per share	$1.42	$1.24	$2.13
Diluted earnings per share	$1.39	$1.21	$2.08

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

	53-week period ended April 3, 2010	52-week period ended March 28, 2009	52-week period ended March 29, 2008
Comparable Store Sales[1]			
Superstores	0.6%	2.4%	4.4%
Small format stores	(2.2%)	4.3%	3.0%
Stores Opened			
Superstores	6	4	–
Small format stores	–	1	3
	6	5	3
Stores Closed			
Superstores	–	–	2
Small format stores	5	4	3
	5	4	5
Number of Stores Open at Year-End			
Superstores	96	90	86
Small format stores	150	155	158
	246	245	244
Selling Square Footage at Year-End (in thousands)			
Superstores	2,217	2,110	2,042
Small format stores	412	415	422
	2,629	2,525	2,464

1 See "Non-GAAP Financial Measures".

Revenue Increase Driven by New Store Openings and One Additional Week

Total consolidated revenues for the 53-week period ended April 3, 2010 increased $28.5 million or 3.0% to $968.9 million from $940.4 million for the 52-week period ended March 28, 2009. The increase was attributable to the inclusion of one additional week of revenue in fiscal 2010, revenues generated by the opening of new superstores during the year and the launch of Kobo. The increase was partially offset by the closure of small format stores. On a normalized 52-week basis, total revenues were up 1.4% compared to the same period last year.

Comparable store sales for the fiscal year increased 0.6% in superstores primarily due to growth in the sales of gift, toys and paper products and decreased 2.2% in small format stores primarily due to the lack of a blockbuster title in the current year comparable to the *Twilight* series by Stephenie Meyer last year. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocation and chain expansion. At fiscal year end, the Company operated six additional superstores and five fewer small format stores compared to the previous fiscal year end.

Online sales decreased by $3.0 million or 3.2% to $92.2 million for the 53-week period ended April 3, 2010 compared to $95.2 million last year. On a normalized 52-week basis, total online sales revenues were down 4.8% compared to the same period last year. The decrease in the online channel was attributable to the Company selectively choosing to exit certain unprofitable titles.

Revenues from other sources include revenues generated through corporate sales, revenues from the sale of loyalty cards, the Company's proportionate revenue generated through Calendar Club, gift card breakage, and revenues from Kobo and Pistachio. Revenues from other sources increased $4.5 million from $44.3 million last year to $48.8 million for the current year as a result of revenues from Kobo and growth in the Company's loyalty card program. On a normalized 52-week basis, total revenues from other sources were up 9.0% compared to the same period last year.

Revenues by channel are highlighted below:

(millions of dollars)	FY10	FY09	% increase	Comparable store sales % increase
Superstores	670.5	634.7	5.6	0.6%
Small format stores	157.4	166.2	(5.3)	(2.2%)
Online (including store kiosks)	92.2	95.2	(3.2)	N/A
Other	48.8	44.3	10.1	N/A
	968.9	940.4	3.0	0.1%

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

	Superstores		Small format stores	
(millions of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Total revenues	670.5	634.7	157.4	166.2
Adjustments for stores not in both fiscal periods	(31.4)	(10.4)	(4.1)	(11.9)
Adjustment for week 53 revenues	(10.9)	0.0	(2.4)	0.0
Comparable store sales	628.2	624.3	150.9	154.3

Cost of Sales (as a Percent of Revenues) Improved Compared to Last Year

Cost of sales include the landed cost of goods sold, online shipping costs, inventory shrink and damage provision, less all vendor support programs. In absolute dollar terms, cost of sales increased $5.5 million to $535.8 million. As a percent of total revenues, cost of sales decreased 1.1% to 55.3% for fiscal 2010, compared to 56.4% last year. Cost of sales percentage in fiscal 2010 decreased due to reductions in online shipping costs, increased vendor support and an increased percentage of products processed centrally at its distribution centre versus shipping the products directly from vendors to stores. The Company receives better margins from its vendors on products shipped to its distribution centre. These improvements were partially offset by higher inventory shrink.

Cost of Operations (as a Percent of Revenues) Increased Slightly Compared to Last Year

Cost of operations includes all store, online, distribution centre and Calendar Club costs. Cost of operations increased $10.4 million primarily due to an increase in occupancy and labour costs. Occupancy costs increased $5.4 million primarily due to the operation of six additional superstores compared to last year. Labour costs increased $4.7 million compared to last year as a result of higher minimum wage rates in most provinces and the opening of new superstores as mentioned above. These increases were partially offset by reductions of $1.5 million in online and Calendar Club expenses. As a percent of total revenues, cost of operations increased by 0.3% in fiscal 2010 as compared to fiscal 2009.

Selling and Administrative Expenses Increased due to Expenses Related to Kobo and Strategic Projects
Selling and administrative expenses include all marketing, head office and Kobo costs. In absolute dollar terms, selling and administrative expenses increased $12.1 million compared to last year. As a percent of total revenues, selling and administrative expenses increased to 8.8% in fiscal 2010 compared to 7.8% in fiscal 2009.

The Company recorded $5.4 million more in operating expenses for Kobo and strategic projects this year compared to last year. In fiscal 2010, expenses related to the start-up and operation of Kobo totalled $6.0 million.

The Company expensed $2.9 million during fiscal 2010 on the expansion of its gift and toy programs and on improvements to its supply chain. In addition, the Company accrued $4.6 million as at April 3, 2010 under the Long Term Performance and Retention Incentive Program as a result of achieving its financial target in the current year. There were no payouts under this program last year.

EBITDA Decreased Slightly as a Percent of Revenues
EBITDA, defined as earnings before interest, taxes, depreciation, amortization, non-controlling interest and non-recurring items increased $0.5 million to $73.0 million for the 53-week period ended April 3, 2010, compared to $72.5 million for the 52-week period ended March 28, 2009. The increase in EBITDA was primarily due to the opening of new superstores and the inclusion of one extra week in fiscal 2010. EBITDA as a percent of revenues decreased to 7.5% this year from 7.7% last year.

Depreciation and Amortization Increased versus Last Year
Depreciation and amortization for the 53-week period ended April 3, 2010 increased by $0.1 million to $28.0 million compared to $27.9 million last year. Capital expenditures in fiscal 2010 totalled $42.2 million and included $21.2 million on store construction, renovations and equipment, $16.2 million on intangible assets (primarily application software and internal development costs) and $4.8 million on technology equipment. Of the $4.8 million expenditure in technology equipment, $1.1 million was financed through capital leases.

The Company wrote off $1.1 million of capital assets relating to Pistachio product design costs and Pistachio store assets in fiscal 2010. These assets were written off because Indigo is no longer using these product designs and the Company closed one Pistachio store during the year. No capital assets were written off during fiscal 2009.

Net Interest Income Recorded
The Company recognized net interest income of $0.1 million in fiscal 2010 compared to $1.1 million in fiscal 2009. The decline in market interest rates caused the Company to earn less interest income on its cash and cash equivalents. The Company nets interest income received against interest expense paid on capital leases.

Transactions Relating to Kobo in the Current Year
During the third quarter of fiscal 2010, the Company recognized a non-recurring $3.0 million dilution gain on the sale of 42.3% of Kobo to the Syndicate. This dilution gain is the difference between the underlying equity of Indigo's Kobo shares and the proceeds received by Kobo on the issue of shares to the Syndicate. As part of this transaction, Indigo received a $1.0 million reimbursement of Kobo expenses which was included in the calculation of the recognized dilution gain.

Upon the sale of 42.3% of Kobo to the Syndicate, a deemed disposition of goodwill occurred as Indigo was deemed to have disposed of a portion of its existing goodwill. The deemed disposition of $0.9 million is a non-recurring transaction.

The Company fully consolidates the results of Kobo in its consolidated financial statements. The Company recorded $1.3 million in non-controlling interest to its statements of earnings and comprehensive earnings as a recovery of losses incurred by Kobo from December 15, 2009 to April 3, 2010. The $1.3 million recovery is the portion attributable to the 42.3% of Kobo owned by the Syndicate.

Income Tax Expense Decreased from Last Year

The Company recognized income tax expense of $12.5 million this year compared to an income tax expense of $15.1 million last year. The decrease in income tax expense in the current year is primarily the result of the reversal of the deferred credit arising from the prior year purchase of tax losses from a related company. During fiscal 2009, Indigo purchased certain tax losses from a related company. Indigo acquired a future tax asset of $7.3 million in exchange for net cash consideration of $2.9 million. The difference of $4.4 million between the net cash consideration and the future tax asset was recorded as a deferred credit. As the future tax asset was utilized based on this year's net earnings, the deferred credit was recognized into income, which results in a lower tax expense for Indigo in fiscal 2010.

Net Earnings Increased 14% in Fiscal 2010

The Company recognized net earnings of $34.9 million for the year or $1.42 net earnings per common share, compared to net earnings of $30.7 million or $1.24 net earnings per common share last year. The increase in net earnings was primarily due to the increase in EBITDA as a result of the opening of new superstores and the inclusion of one extra week in fiscal 2010, gains from the Kobo transaction and, as described above, a reduction in income tax expense.

Seasonality and Fourth Quarter Results

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

(thousands of dollars, except per share data)	Q1	Q2	Q3	Q4
Fiscal 2010 Revenues	**193,551**	**206,990**	**340,195**	**228,191**
Net earnings (loss)	**(2,304)**	**2,200**	**34,530**	**497**
Basic earnings (loss) per share	**$(0.09)**	**$0.09**	**$1.41**	**$0.02**
Diluted earnings (loss) per share	**$(0.09)**	**$0.09**	**$1.38**	**$0.02**
Fiscal 2009 Revenues	190,602	205,261	330,014	214,522
Net earnings (loss)	(1,225)	3,188	26,770	1,917
Basic earnings (loss) per share	$(0.05)	$0.13	$1.09	$0.08
Diluted earnings (loss) per share	$(0.05)	$0.13	$1.07	$0.08

The Company realized growth in consolidated revenues in the fourth quarter of fiscal 2010. Revenues increased $13.7 million or 6.4%, to $228.2 million compared to $214.5 million in the same quarter last year. Online sales increased $0.7 million or 3.0%, to $23.8 million in the fourth quarter this year from $23.1 million last year. Sales growth benefited from a 14-week fourth quarter period in fiscal 2010, compared to a 13-week fourth quarter period in fiscal 2009 and from new superstores that opened during this fiscal year. On a normalized 13-week basis, consolidated revenues were down $1.6 million or 0.8% compared to the fourth quarter of last year. For the fourth quarter, comparable store sales decreased 2.7% in superstores and 5.8% in small format stores. The decrease was mainly due to a significant reduction in customer traffic during the February Olympics period.

Net earnings in the fourth quarter of fiscal 2010 were $0.5 million, compared to $1.9 million in the same quarter last fiscal year. The decrease in net earnings was largely due to higher occupancy and labour costs, expenses related to Kobo and the bonus accrual under the Long-Term Performance and Retention Incentive Program as previously discussed. The decrease was partially offset by lower income tax expense.

Overview of Consolidated Balance Sheets

Total Assets

As at April 3, 2010, total assets were $32.3 million greater than total assets at March 28, 2009. The increase in assets was primarily due to increases in the Company's cash and cash equivalents, intangible assets, property, plant and equipment, inventory and future tax assets. Cash and cash equivalents increased $11.7 million primarily due to the consolidation of Kobo's $11.0 million cash and cash equivalents. Intangible assets increased by $7.5 million primarily due to expenditures for technology-related projects. Property, plant and equipment increased by $5.3 million primarily due to the opening of new superstores. The Company's inventory position increased $2.6 million mainly due to the opening of new superstores and the expansion of the gift, paper and toy businesses.

Future tax assets increased by $4.9 million compared to last year. The Company utilized tax loss carryforwards and other temporary differences, such as capital cost allowance this year, resulting in a $15.8 million reduction in future tax assets. This decrease was offset by $20.7 million of tax loss carryforwards acquired during the year when Indigo purchased a company with $69.6 million in non-capital tax losses as described below.

In April 2010, Indigo purchased a company, the sole asset of which is certain tax losses, from a public company controlled by Mr. Gerald W. Schwartz, who is also the controlling shareholder of Indigo. Indigo acquired this company with $69.6 million of non-capital tax losses in exchange for net cash consideration of $7.7 million. The amount included transaction costs shared between the two companies. This transaction was recorded at the exchange amount. As a result, the Company recorded a future tax asset of $20.7 million and the difference of $13.0 million between the net cash consideration and the future tax asset was recorded as a deferred credit, included in accounts payable and accrued liabilities. In connection with this transaction, the Company obtained an advanced tax ruling from Canada Revenue Agency. The transaction was also unanimously approved by the Audit Committee, all the members of which are independent directors.

Total Liabilities

As at April 3, 2010, total liabilities were $2.6 million less than total liabilities at March 28, 2009. The decrease in liabilities was due to a $1.5 million decrease in current and long-term accounts payable and accrued liabilities. The reduction in accounts payables was due to the timing of year end, with the fiscal 2010 year end date occurring at the beginning of April, compared to the end of March in fiscal 2009. Payables due at the beginning of April were paid prior to April 3, 2010, but were still outstanding as at March 28, 2009. Long-term debt also decreased $2.0 million as the Company made payments towards its capital lease obligation.

The reduction in accounts payables and accrued liabilities was partially offset by the deferred credit of $13.0 million, as discussed above. Deferred revenue also increased by $1.3 million as a result of growth in the Company's loyalty card program.

Non-Controlling Interest

The Company fully consolidates the results of Kobo in its consolidated financial statements. For the fiscal year ended April 3, 2010, the Company recorded $6.8 million in non-controlling interest on its consolidated balance sheet. The $6.8 million reflects the 42.3% of Kobo owned by the Syndicate.

Shareholders' Equity

Shareholders' equity at April 3, 2010 increased $28.1 million compared to March 28, 2009. The increase in shareholders' equity was primarily due to net earnings of $34.9 million in fiscal 2010. It was partially offset by (i) a $0.4 million decrease in share capital due to the repurchase of common shares under the normal course issuer bid; and (ii) $9.8 million of dividend payments. Contributed surplus increased $1.0 million due to the expensing of employee stock options and Director's deferred stock units.

Working Capital and Leverage

The Company reported working capital of $106.4 million as at April 3, 2010, compared to $87.1 million at the end of fiscal 2009. Working capital increased due to growth in current assets exceeding growth in current liabilities. The growth in current assets was $15.9 million primarily due to consolidation of Kobo's cash balances and increases in cash and cash equivalents, inventory and income taxes recoverable, while the reduction in current liabilities was $3.4 million primarily due to a decrease in accounts payable and accrued liabilities.

The Company's leverage position (defined as Total Liabilities to Total Shareholders' Equity) decreased slightly to 1.0:1 at the end of fiscal 2010 compared to 1.1:1 last year.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents increased $11.7 million during fiscal 2010 compared to an increase of $36.2 million last year. The increase was driven by cash flows from operating activities of $62.2 million, offset by cash flows used in investing activities of $48.9 million, cash flows used in financing activities of $0.4 million and the effect of foreign currency exchange rate changes on cash and cash equivalents of $1.2 million.

Cash Flows from Operating Activities

The Company generated positive cash flows from operating activities of $62.2 million during fiscal 2010. This was a decrease of $32.6 million over the same period last year, when cash flows generated from operating activities were $94.8 million. The reduction in cash flow was driven by a $40.3 million decrease in accounts payable and accrued liabilities and a $7.5 million decrease in future tax assets. These decreases were offset by an increase of $12.9 million in inventories.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities were $48.9 million in fiscal 2010 compared to $49.2 million in fiscal 2009. In fiscal 2010, total cash spent on capital projects were $41.1 million compared to $49.0 million spent in fiscal 2009 as outlined below:

(millions of dollars)	FY10	FY09
Store construction, renovations and equipment	**21.2**	26.1
Technology equipment	**3.7**	10.7
Intangible assets (primarily application software and internal development costs)	**16.2**	12.2
	41.1	49.0

The Company opened six new superstores and expanded the toy section at several superstores during fiscal 2010. Store renovations are typically done upon lease renewal and at selected points throughout a lease term. The amounts spent in fiscal 2010 and fiscal 2009 are reflective of the average term of leases in the Company's portfolio and the required dates for store renovations.

During fiscal 2010, capital expenditures included $21.2 million in store construction, renovations and equipment, $16.2 million on intangible assets and $3.7 million in technology-related products. The Company also paid $7.7 million for the acquisition of non-capital tax losses this year compared to $2.9 million last year.

Cash Flows Used in Financing Activities

Net cash flows used in financing activities were $0.4 million in fiscal 2010 compared to $8.5 million in fiscal 2009. The reduction in cash flows used by financing activities was driven by $11.0 million received from third-party investors in Kobo. There was no such investment received in fiscal 2009. This cash receipt was offset by $9.8 million of dividends paid during fiscal 2010 and a $3.0 million repayment of long-term debt. The Company did not make any dividend payments last year. The reduction in cash flows used in financing activities was also due to the Company using $0.4 million to repurchase common shares under the normal course issuer bid in fiscal 2010 compared to $5.0 million last year.

Liquidity and Capital Resources

The Company has a highly seasonal business which generates the majority of its revenues and cash flows during the December holiday season. Indigo has minimal accounts receivable, as its customers pay largely by cash or credit card, and it purchases products on trade terms with the right to return a significant portion of its products. Indigo's main sources of capital are cash flows generated from operations and long-term debt. Indigo invests its cash in highly liquid assets. The Company does not invest in asset-backed commercial paper. The Company previously had a revolving line of credit which expired on October 15, 2009 and was not renewed.

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

(millions of dollars)	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
Capital lease obligations	1.9	1.1	–	–	3.0
Operating leases	62.8	104.9	56.5	43.3	267.5
Total obligations	64.7	106.0	56.5	43.3	270.5

Based on the Company's liquidity position and cash flow forecast, the Board of Directors approved a 10% increase in the Company's quarterly cash dividend to $0.11 per common share or $0.44 per common share annually, starting in the first quarter of fiscal 2011. Based on current operating levels, management expects cash flow generated from operations to be sufficient to meet its working capital needs, debt service requirements and dividend payments for fiscal 2011. In addition, Indigo has the ability to reduce capital spending to fund debt requirements if necessary; however a long-term decline in capital expenditures may negatively impact revenues and profit growth. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors. Dividends may be reduced or eliminated if required to maintain appropriate capital resources.

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

Accounting Policies

Critical Accounting Estimates

The discussion and analysis of Indigo's operations and financial condition are based upon the consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of these consolidated financial statements requires the Company to estimate the effect of several variables that are inherently uncertain. These estimates and assumptions can affect the reported amounts of assets, liabilities, revenues and expenses. Indigo bases its estimates on historical experience and other assumptions which the Company believes to be reasonable under the circumstances. The Company also evaluates its estimates on an ongoing basis. Methods used to calculate critical accounting estimates are consistent with prior periods. The significant accounting policies of the Company are described in Note 2 of the consolidated financial statements.

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

Inventory Valuation

Indigo uses the cost method to account for inventory and cost of sales. Under this method, inventory is recorded at the individual article (stock keeping unit or sku) level. The average cost of an article is continually updated based on the cost of each purchase recorded into inventory. When the Company permanently reduces the retail price of an item, there is a corresponding reduction in inventory recognized in the period if the markdown incurred brings the retail price below the cost of the item. The Company also reduces inventory for estimated shrinkage that has occurred between physical inventory counts. The net result is that inventory is valued at the lower of cost, determined on a moving average cost basis, or market, being net realizable value.

Indigo records provisions for slow-moving and damaged products and for gift, paper and entertainment products that have been marked down based on assumptions about future sales demand, inventory levels and product quality. Management reviews the provisions regularly and assesses whether they are appropriate based on actual experience. In addition, the Company records a vendor settlement provision to cover any disputes between the Company and its vendors. Management estimates this provision based on historical experience of settlements with its vendors.

Given that inventory and cost of sales are significant components of the consolidated balance sheets and consolidated statements of earnings and comprehensive earnings, any changes in assumptions and estimates could have a material impact on the Company's financial position.

Assessment of Impairment of Long-Lived Assets, Intangibles and Goodwill

The Company's long-lived assets consist mainly of property, plant and equipment. Long-lived assets and intangibles are reviewed by the Company whenever events or changes in circumstances indicate that their carrying values are not recoverable, resulting in a potential impairment. A potential impairment has occurred if the projected future undiscounted cash flows are less than the carrying value of the assets. When this is the case, the impairment loss is measured as the excess of the carrying value of the assets over its fair value, which is determined as the present value of the cash flows being generated from the assets. The evaluation is performed for the lowest level of the group of assets and liabilities with identifiable cash flows that are independent of those of other assets and liabilities.

The recoverability assessment requires judgment and estimates for future generated cash flows. The underlying estimates for future cash flows include estimates for future sales, gross margin rates, expenses and are based upon past and expected performance.

Property, plant and equipment make up a significant amount of the Company's total assets. To the extent that there is a significant change to the Company's assumptions, there may potentially be a significant impact on the Company's consolidated financial statements.

In accordance with Canadian GAAP, the Company does not amortize goodwill. Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. The carrying values of the net assets are compared to the estimated fair values at the reporting unit level. Fair values are estimated based on the discounted cash flow method which depends on variables such as future earnings trends, capital expenditures and the discount rate. Any change in these variables may result in future impairment of goodwill. The Company completed an assessment as at April 3, 2010 to compare the carrying value of goodwill to the Company's market capitalization and net identifiable assets, and concluded that there was no impairment of goodwill.

Gift Cards

The Company sells gift cards to its customers and recognizes the revenue as the gift cards are redeemed. The Company also recognizes revenue from unredeemed gift cards (gift card breakage) if the likelihood of the gift card being redeemed by the customer is considered to be remote. The Company determines its average gift card breakage rate based on historical redemption rates. Once the breakage rate is determined, the resulting revenue is recognized over the estimated period of redemption, commencing when the gift cards are sold, based on historical redemption patterns. Any change in the historical redemption pattern would affect the amount of gift card breakage that the Company recorded on its consolidated statements of earnings and comprehensive earnings.

Income Taxes

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are estimated to reverse.

Indigo currently has future tax assets associated with its non-capital loss carryforwards and other temporary differences which are available to reduce taxable income in the future. The Company evaluates the likelihood of using all or a portion of the loss carryforwards based on expected future earnings derived from internal forecasts, earning/loss trends in recent years and the expiry date of its loss carryforwards. Based on this information, the Company determines the appropriate amount of income tax valuation allowance that is required to reduce the value of its total loss carryforwards to an amount which it estimates it can more likely than not utilize. As at the end of the current fiscal year, the Company determined that an income tax valuation allowance of $0.7 million was required due to losses incurred in the Kobo legal entity, as Kobo may be unable to utilize all of its tax loss carryforwards. Any changes in estimates would affect the income tax expense on the consolidated statements of earnings and comprehensive earnings and future tax assets on the consolidated balance sheets. If the actual amount differs from the current estimates, the future tax value of these loss carryforwards may change significantly and the Company may incur a non-cash tax expense.

Financial Instruments

The fair value of financial instruments is the estimated amount the Company would receive or pay to terminate the contracts at the reporting date. Such fair value estimates are not necessarily indicative of the amounts the Company might receive or pay in actual market transactions.

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

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values, given their short-term maturities.

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

As at the end of fiscal 2010, the Company did not have any interest rate and foreign currency derivative contracts outstanding.

Accounting Standards Adopted in Fiscal 2010

Adoption of financial instrument amendments

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") amended CICA Handbook Section 3862, "Financial Instruments – Disclosures." The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for financial statement preparers, the CICA decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described as follows, for disclosure purposes. Each level reflects the significance of the inputs used in making the fair value measurements.

Fair value of financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly, other than the quoted prices. Level 3 valuations are based on inputs that are not based on observable market data.

The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments or the liquidity risk disclosures. Cash and cash equivalents are the only financial instrument which Indigo measures at fair value. As at April 3, 2010, Indigo classified its cash as a Level 1 asset and had no cash equivalents. Indigo has no Level 2 or Level 3 assets or liabilities as at April 3, 2010.

The Company has also adopted CICA amendments to Section 3855, "Financial Instruments – Recognition and Measurement." Section 3855 was revised to (i) change categories into which a debt instrument is required or permitted to be classified; (ii) apply the incurred credit loss model to held-to-maturity financial assets; and (iii) require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances, as well as providing specific transitional guidance. A further amendment to Section 3855 was made to clarify the application of the effective interest method after a debt instrument has been impaired. Implementation of these amendments did not have an impact on Indigo's results of operations, financial position or disclosures.

Section 3855 was also amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for trading category. This amendment is effective for reclassifications made on or after July 1, 2009. Adoption of this amendment did not have an impact on Indigo's results of operations, financial position or disclosures.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee ("EIC") issued a new abstract concerning the measurement of financial assets and financial liabilities, EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." There had been diversity in practice as to whether an entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The EIC reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. EIC 173 was effective for all financial assets and financial liabilities measured at fair value in interim and annual financial statements issued for periods ending on or after the date of issuance of EIC 173, with retrospective application without restatement of prior periods. The Company adopted EIC 173 at the beginning of its current fiscal year. The implementation did not have an impact on the Company's results of operations, financial position or disclosures.

New Accounting Pronouncements

The following accounting standards will be adopted by the Company in the future.

Financial Instruments – Recognition and Measurement

In April 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement," to provide guidance on when an embedded prepayment option is separated from its host debt instrument. The amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. The amendment will not have an impact on Indigo's results of operations, financial position or disclosures.

Business Combinations

Section 1582 of the CICA Handbook, "Business Combinations", replaces the existing Section 1581, "Business Combinations." The CICA also issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which replaces Section 1600, "Consolidated Financial Statements." These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations" and will replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The three new standards have to be adopted concurrently and will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. Section 1602 should be applied retrospectively except for certain items. The Company plans to adopt the new accounting standards for fiscal 2012. Adoption of the new standards will have no retrospective impact on Indigo's results of operations, financial position or disclosures.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). An opening statement of financial position in accordance with IFRS will be prepared as at April 4, 2010 ("transition date"), to facilitate the changeover to IFRS. However, the Company will continue to report its fiscal 2011 and comparative fiscal 2010 results in accordance with Canadian GAAP. The Company will prepare and report interim and annual financial statements according to IFRS starting fiscal 2012, with fiscal 2011 comparatives also in accordance with IFRS, after the changeover date of April 3, 2011.

The Company's launch of its IFRS conversion project began in 2008 when it engaged an external consultant to conduct a preliminary diagnosis and scoping exercise. A project team was established to complete a detailed assessment of each standard, including identifying the differences between the Company's current policies and those under IFRS and determining the financial implications of adopting these new standards. Project plans were also developed to address the information technology and data system impacts, disclosure controls and procedures and internal controls over financial reporting.

To date, the Company has prepared a draft set of IFRS-compliant consolidated financial statements for fiscal 2009 and revised the draft based on comments received from its auditors. Management has presented the draft consolidated financial statements to the Audit Committee. The Audit Committee has also been provided with updates regarding changes that have occurred since the drafts were initially presented. The Company plans to prepare its opening IFRS balance sheet during the first half of fiscal 2011 and to have its auditors complete the audit of its opening IFRS balance sheet by Q3 of fiscal 2011. Revision of the Company's process narratives and reassessment of the design and effectiveness of Internal Controls over Financial Reporting and Disclosure Controls and Procedures have begun and will continue throughout fiscal 2011.

The following section presents key areas where changes in accounting policies are expected to impact the Company's consolidated financial statements. The list and comments should not be regarded as a complete list of changes that will result from transition to IFRS and are intended to highlight those areas the Company believes to be most significant. The final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS standards applicable at the conversion date are known. Although the IFRS accounting policies have been approved by senior management and the Audit Committee, such approval is contingent upon the realization of our expectations regarding the IFRS standards that will be effective at the time of transition. Consequently, the Company's analyses of changes and policy decisions have been made based on its expectations regarding the accounting standards that are anticipated to be effective at the conversion date.

First-time Adoption of International Financial Reporting Standards ("IFRS 1")

The Company's adoption of IFRS will require the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting year retrospectively. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the significant optional exemptions available under IFRS 1 that the Company expects to apply in preparing Indigo's first consolidated financial statements under IFRS:

(i) IFRS 1 encourages application of IFRS 2, "Share-based Payments", to equity instruments granted on or before November 7, 2002 and / or to equity instruments granted after November 7, 2002 that had not vested by the transition date. Indigo expects to elect to apply the requirements of IFRS 2 prospectively to equity instruments which were issued after April 4, 2010. Indigo will also record transition adjustments for equity instruments granted after November 7, 2002 which had not vested by April 4, 2010;

(ii) IFRS 1 allows either retrospective or prospective application of IAS 23, "Borrowing Costs", which would require the capitalization of borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to ready for its intended use or sale. Indigo expects to elect to apply the requirements of IAS 23 prospectively from April 4, 2010;

(iii) IFRS 1 allows either retrospective or prospective application of IFRS 3, "Business Combinations". The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. For business combinations which occurred prior to April 4, 2010, Indigo expects to elect not to restate historic business combinations; and

(iv) IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at transition date and using those amounts as deemed cost, or using the historical valuation under the prior GAAP. Indigo expects to continue applying the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS.

Impairment of Assets ("IAS 36")

IAS 36 uses a one-step approach in both testing for and measurement of impairment, with asset carrying values compared directly with value in use. Canadian GAAP, however, uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. The difference in methodologies may result in additional asset impairments upon transition to IFRS.

Additionally, under Canadian GAAP, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities for impairment testing purposes. IFRS requires that assets be tested for impairment at the level of cash generating units, which is the lowest level of assets that generate largely independent cash inflows. Indigo expects its cash generating units under IFRS to be at the store level, which is different than under Canadian GAAP. This lower level grouping may result in an increase in impairments under IFRS.

However, with the exception of goodwill, write-downs may be offset in future years by the requirement under IAS 36 to reverse previous impairment losses where circumstances have changed. Canadian GAAP prohibits reversal of impairment losses.

The Company has revised its impairment testing model to comply with the requirements of IAS 36. However, at this time, Indigo has not yet finalized the impairment testing for the opening balance sheet under IFRS and is unable to quantify the difference from the Company's Canadian GAAP impairment tests.

Share-based Payments ("IFRS 2")

IFRS 2 requires that each tranche of a stock-based award be considered a separate grant with a different vesting date and fair value, and that each tranche is accounted for separately. Under Canadian GAAP, the fair value of a stock-based award with graded vesting is recognized on a straight-line basis over the vesting period. This change in timing will affect the amount of stock-based award expense recognized by the Company on an annual basis.

Furthermore, Canadian GAAP allows award forfeitures to be recognized as they occur but IFRS 2 requires forfeitures to be estimated and recognized in the current period, with revisions for actual forfeitures in subsequent periods. This change impacts the Company's method of calculating its stock-based award expense. The Company is revising its calculation method to comply with IFRS but is currently unable to quantify the impact of this change.

Earnings per Share ("IAS 33")

When share options are issued under the guidelines of IFRS 2, IAS 33 requires that the issue price and exercise price used to calculate the diluted earnings per share effect of these options include the fair value of any goods or services to be supplied to the Company in the future under the share option. The exercise price will therefore be the sum of the exercise price and the fair value of services yet to be rendered, calculated on a per option basis. For employees with outstanding stock options, the fair value of services yet to be rendered is calculated as the expense to be recognized over the remainder of the vesting period. Under Canadian GAAP, the fair value of services yet to be rendered is not included in the calculation of diluted earnings per share. This change results in a higher exercise price under IFRS than under Canadian GAAP and therefore, a reduction in the number of dilutive securities which could be exercised. The change in calculation methodology may result in higher diluted earnings per share under IFRS.

Borrowing Costs ("IAS 23")

IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of an asset, which occurs over a substantial period of time, as part of the cost of that asset. Under Canadian GAAP, the Company expensed these costs as incurred. Retrospective application of IAS 23 will not be required as the Company expects to elect for prospective application under IFRS 1. However, on a prospective basis starting April 4, 2010, the Company will begin to capitalize borrowing costs associated with qualifying assets which take more than six months to construct. The costs included in this class will have their own depreciation rates consistent with the related asset (e.g., furniture and fixtures, computer equipment, leasehold improvements) for which these costs were incurred.

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

IAS 37 requires an entity to recognize a provision when a contract becomes onerous, that is, when it has a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the lowest net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision. Canadian GAAP only requires the recognition of such a liability in certain prescribed situations. This difference could result in recognition of an obligation under IFRS that was not previously recognized under Canadian GAAP. The Company is in the process of reviewing all its store leases to determine if any were onerous at the date of transition and cannot yet reliably quantify the impact of this difference on the opening balance sheet.

Under Canadian GAAP, a provision was recorded based on the likely probability that payment or surrender of assets would be required to fulfill the obligation. However, under IAS 37 a provision must be recorded when it is probable or more likely than not, which is a lower threshold for recognition than Canadian GAAP. This change may result in an increase to the number of provisions recorded by the Company.

The IASB has issued two exposure drafts containing proposals to replace the current IAS 37 standard and indicates that it plans to complete the revised standard in 2010. The Company is closely monitoring the status of changes to IAS 37, however, the final impact of a revised IAS 37 standard to Indigo cannot be determined at this time.

Joint Ventures ("IAS 31")

IAS 31 currently provides the entity with a policy choice to account for joint ventures using either proportionate consolidation or the equity method. Currently, under Canadian GAAP, Indigo proportionately accounts for its interest in the Calendar Club joint venture. The International Accounting Standards Board ("IASB") is currently considering Exposure Draft 9, "Joint Arrangements" ("ED 9"), that is intended to modify IAS 31. ED 9 proposes to eliminate the option to proportionately consolidate such interests which exists in IAS 31 and instead require an entity to recognize its interest in a joint venture using the equity method. The IASB has indicated that it expects to issue a new standard to replace IAS 31 in 2010. The Company will continue to monitor the status of ED 9 and IAS 31, however, the ultimate impact of a change to account for joint ventures using the equity method cannot be determined at this time.

Income Taxes ("IAS 12")

The IASB had issued an exposure draft containing proposals to replace the current IAS 12 for income taxes and related interpretations, but indicated in November 2009 that the exposure draft will not proceed as proposed. The IASB is expected to review the standard for income taxes on a piecemeal basis in the future. The Company will monitor near-term projects that the IASB initiates for income taxes; however, the ultimate impacts of the IASB exposure drafts on IAS 12 cannot be determined at this time.

Deferred Credit

During fiscal 2010, Indigo acquired a company with $69.6 million of non-capital tax losses in exchange for net cash consideration of $7.7 million. As a result, Indigo recorded a future tax asset of $20.7 million and under Canadian GAAP, the difference of $13.0 million between the net cash consideration and the future tax asset was recorded as a deferred credit, included in accounts payable and accrued liabilities. However, based on the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework"), the difference between the net cash consideration and the future tax asset does not have the characteristics of a liability. The calculated difference of $13.0 million does not result in a present obligation for Indigo and, as such, cannot be recorded as a liability under the Framework. Indigo will therefore record $13.0 million as a transition adjustment on the Company's opening IFRS balance sheet to reclassify the deferred credit as retained earnings.

The information above is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our consolidated financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Risks and Uncertainties

Competition

The retail book selling business is highly competitive. Specialty bookstores, independents, other book superstores, regional multi-store operators, supermarkets, drug stores, warehouse clubs, mail order clubs, Internet booksellers, mass merchandisers and other retailers offering books are all sources of competition for the Company.

The digital book industry is also highly competitive and is undergoing rapid growth. The number of retailers selling eBooks has increased as have the number of retailers selling eReaders. The eReader industry is changing rapidly with increased competition from new eReader devices. As the digital book industry continues to expand, increased eBook sales may impact the sales of physical books. As eBooks are priced lower than physical books, if consumers reduce purchases of physical books in favour of eBooks, it could reduce the Company's revenues.

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

Economic Environment

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

External Events

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

Regulatory Environment

The distribution and sale of books is a regulated industry in which foreign ownership is generally not permitted under the *Investment Canada Act*. As well, the sourcing and importation of books is governed by the Book Importation Regulations to the *Copyright Act (Canada)*. In April 2010, the government of Canada issued a one-time ruling to allow U.S. online retailer, Amazon.com Inc., to operate a distribution centre in Canada. There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada.

Credit, Foreign Exchange, and Interest Rate Risks

The Company's credit risk is considered to be negligible as the Company only deals with highly rated financial institutions. In addition, the Company has minimal accounts receivable as its customers pay mainly by cash or credit card. The maximum exposure to credit risk at the reporting date is equal to the carrying value of the accounts receivable.

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. However, the strategic partnerships entered into by Kobo are anticipated to result in sales to American, European, Asian and Australian consumers and therefore, foreign exchange risk is expected to increase as Kobo expands its operations. Kobo is in the start-up phase of operations and its current impact on foreign exchange risk is not significant. Given Indigo has determined that its foreign currency risk is manageable, the Company does not use foreign currency derivative contracts to hedge its foreign exchange risk.

The Company's interest rate risk is limited to the fluctuation of floating rates on its cash and cash equivalents. Counterparty credit risk is considered to be negligible as the Company only deals with highly rated financial institutions.

Leases

The average unexpired lease term of Indigo's superstores and small format stores is approximately 4.0 years and 3.0 years, respectively. The Company attempts to renew these leases as they come due on favourable terms and conditions, but is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred as a result of unanticipated store closing and relocation could unfavourably impact the Company's performance.

Dependence on Key Personnel

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

Legal Proceedings

In the normal course of business, Indigo becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2010 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company is gathered and reported on a timely basis to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), so that appropriate decisions can be made by them regarding public disclosure.

As required by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), the CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of such disclosure controls and procedures. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at April 3, 2010.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control 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 Canadian generally accepted accounting principles.

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 control over financial reporting using the framework established in the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organization of the Treadway Commission. Based on that evaluation, they have concluded that the design and operation of the Company's internal control over financial reporting were effective as at April 3, 2010.

Changes in Internal Control over Financial Reporting

Management has also evaluated whether there were changes in the Company's internal control over financial reporting that occurred during the period beginning on December 27, 2009 and ended on April 3, 2010 that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting and has determined that no material changes occurred during 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 with 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 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-GAAP Financial Measures

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In order to provide additional insight into the business, the Company has also provided non-GAAP data, including comparable store sales and EBITDA, in the discussion and analysis section above. Neither measure has a standardized meaning prescribed by GAAP, and is therefore specific to Indigo and may not be comparable to similar measures presented by other companies. The Company has also provided non-GAAP normalized revenue data to remove the effect of having a 53-week fiscal year in 2010 compared to the 52-week fiscal year ended March 28, 2009. Normalized revenue was calculated by excluding revenues from week 53 of fiscal 2010.

Comparable stores sales and EBITDA are key indicators used by the Company to measure performance against internal targets and prior period results. Both measures are commonly used by financial analysts and investors to compare Indigo to other retailers. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months on a 52-week basis. It is a key performance indicator for the Company as this measure excludes sales fluctuations due to store closings, permanent relocation and chain expansion. EBITDA is defined as earnings before interest, taxes, depreciation, amortization and non-controlling interest. EBITDA also excludes the capital assets write-off, the non-recurring dilution gain and deemed disposition of goodwill because they affect the comparability of Indigo's financial results. The method of calculating EBITDA is consistent with that used in prior periods.

A reconciliation between EBITDA and earnings before income taxes and non-controlling interest (the most comparable GAAP measure) is provided below:

(millions of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
EBITDA	**73.0**	72.5
Depreciation of property, plant and equipment	**19.7**	22.2
Amortization of intangible assets	**8.3**	5.6
Write-off of capital assets	**1.1**	0.0
Dilution gain on sale of non-controlling interest in subsidiary	**(3.0)**	0.0
Deemed disposition of goodwill	**0.9**	0.0
Interest on long-term debt and financing charges	**0.2**	0.3
Interest income on cash and cash equivalents	**(0.3)**	(1.4)
Earnings before income taxes and non-controlling interest	**46.1**	45.8

A reconciliation between comparable store sales and revenues (the most comparable GAAP measure) was included earlier in this report. A reconciliation between normalized fiscal 2010 revenues and full year fiscal 2010 revenues (the most comparable GAAP measure) is provided below:

(millions of dollars)	53-week period ended April 3, 2010	Week 53 revenues	53-week period ended April 3, 2010 (normalized)	52-week period ended March 28, 2009
Revenues				
Superstores	**670.5**	**10.9**	**659.6**	634.7
Small format stores	**157.4**	**2.4**	**155.0**	166.2
Online (including store kiosks)	**92.2**	**1.5**	**90.7**	95.2
Other	**48.8**	**0.5**	**48.3**	44.3
	968.9	**15.3**	**953.6**	940.4

Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

We have audited the consolidated balance sheets of Indigo Books & Music Inc. as at April 3, 2010 and March 28, 2009 and the consolidated statements of earnings and comprehensive earnings, retained earnings and cash flows for the 53-week and 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 3, 2010 and March 28, 2009 and the results of its operations and its cash flows for the 53-week and 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 31, 2010

Consolidated Balance Sheets

(thousands of dollars)	As at April 3, 2010	As at March 28, 2009
ASSETS		
Current		
Cash and cash equivalents	**103,898**	92,169
Accounts receivable	**8,455**	9,890
Inventories (note 9)	**224,406**	221,767
Income taxes recoverable	**899**	–
Prepaid expenses	**6,771**	5,118
Future tax assets (note 6)	**6,615**	6,181
Total current assets	**351,044**	335,125
Property, plant and equipment (notes 4 and 16)	**77,478**	72,137
Future tax assets (note 6)	**40,894**	36,422
Intangible assets (notes 5 and 16)	**23,794**	16,299
Goodwill (note 5)	**26,632**	27,523
Total assets	**519,842**	487,506
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (notes 10, 13 and 18)	**229,920**	233,353
Deferred revenue	**12,882**	11,612
Income taxes payable	**–**	344
Current portion of long-term debt (notes 10 and 17)	**1,863**	2,734
Total current liabilities	**244,665**	248,043
Long-term accrued liabilities (note 10)	**8,203**	6,301
Long-term debt (notes 10 and 17)	**1,174**	2,272
Total liabilities	**254,042**	256,616
Non-controlling interest (note 15)	**6,831**	–
Shareholders' equity		
Share capital (note 7)	**198,635**	196,471
Contributed surplus (note 8)	**4,670**	3,685
Retained earnings	**55,664**	30,734
Total shareholders' equity	**258,969**	230,890
Total liabilities and shareholders' equity	**519,842**	487,506

Commitments and contingencies (note 17)

See accompanying notes

On behalf of the Board:

Heather Reisman

Heather M. Reisman
Director

Michael Kirby
Director

Consolidated Statements of Earnings and Comprehensive Earnings

(thousands of dollars, except per share data)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Revenues	968,927	940,399
Cost of sales, operations, selling and administration (note 9)	895,930	867,945
	72,997	72,454
Depreciation of property, plant and equipment	19,682	22,223
Amortization of intangible assets	8,326	5,638
Write-off of capital assets (note 16)	1,086	–
	29,094	27,861
Earnings before the undernoted items	43,903	44,593
Interest on long-term debt and financing charges	214	309
Interest income on cash and cash equivalents	(333)	(1,443)
Dilution gain on sale of non-controlling interest in subsidiary (note 15)	(3,019)	–
Deemed disposition of goodwill (note 15)	891	–
Earnings before income taxes and non-controlling interest	46,150	45,727
Income tax expense (note 6)		
Current	1,481	344
Future	11,056	14,733
	12,537	15,077
Earnings before non-controlling interest	33,613	30,650
Non-controlling interest (note 15)	(1,310)	–
Net earnings and comprehensive earnings for the period	34,923	30,650
Net earnings per common share (note 7)		
Basic	$1.42	$1.24
Diluted	$1.39	$1.21

See accompanying notes

Consolidated Statements of Retained Earnings

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Retained earnings, beginning of period	**30,734**	2,252
Net earnings for the period	**34,923**	30,650
Shares repurchase excess (note 7)	**(178)**	(2,168)
Dividends paid	**(9,815)**	–
Retained earnings, end of period	**55,664**	30,734

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	34,923	30,650
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	19,682	22,223
Amortization of intangible assets	8,326	5,638
Stock-based compensation (note 8)	1,130	862
Directors' stock-based compensation (note 8)	378	362
Future tax assets (note 6)	2,842	10,324
Loss on disposal of capital assets	290	30
Write-off of capital assets (note 16)	1,086	–
Non-controlling interest (note 15)	(1,310)	–
Dilution gain on sale of non-controlling interest in subsidiary (note 15)	(3,019)	–
Deemed disposal of goodwill (note 15)	891	–
Other	1,387	883
Net change in non-cash working capital balances related to operations		
Accounts receivable	1,435	(894)
Inventories (note 9)	(2,639)	(15,508)
Prepaid expenses	(1,653)	(189)
Income taxes payable (recoverable)	(1,243)	365
Deferred revenue	1,270	1,262
Accounts payable and accrued liabilities	(1,531)	38,782
Cash flows from operating activities	62,245	94,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(24,927)	(34,041)
Addition of intangible assets	(16,231)	(12,176)
Acquistion of non-capital tax losses (note 18)	(7,748)	(2,932)
Cash flows used in investing activities	(48,906)	(49,149)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(3,031)	(3,784)
Proceeds from share issuances (notes 7 and 8)	1,909	287
Repurchase of common shares (note 7)	(446)	(5,025)
Issuance of equity securities by subsidiary to non-controlling interest (note 15)	11,000	–
Dividends paid	(9,815)	–
Cash flows used in financing activities	(383)	(8,522)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,227)	(883)
Net increase in cash and cash equivalents during the period	11,729	36,236
Cash and cash equivalents, beginning of period	92,169	55,933
Cash and cash equivalents, end of period	103,898	92,169

See accompanying notes

Notes to Consolidated Financial Statements

April 3, 2010

1. NATURE OF OPERATIONS

Indigo Books & Music Inc. (the "Company" or "Indigo"), Canada's largest book retailer, was formed as a result of an amalgamation of Chapters Inc. and Indigo Books & Music, Inc. under the laws of the Province of Ontario, pursuant to a Certificate of Amalgamation dated August 16, 2001. The Company operates a chain of retail bookstores across all 10 provinces and one territory in Canada, including 96 superstores (March 28, 2009 – 90) under the *Chapters*, *Indigo* and *World's Biggest Bookstore* names, as well as 150 small format stores (March 28, 2009 – 155) under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks* and *The Book Company* and one new concept store (March 28, 2009 – two) under the banner *Pistachio*. The Company operates *www.chapters.indigo.ca*, an e-commerce retail destination, which sells books, videos, DVDs, music and toys. In February 2009, Indigo launched Shortcovers (*www.shortcovers.com*), a new digital destination offering online and mobile service that provides instant access to the newest books, articles and blogs. On December 14, 2009, Indigo transferred the net assets of Shortcovers into a new company, Kobo Inc. ("Kobo"). The Shortcovers website was renamed to *www.kobobooks.com*. Kobo secured $16.0 million in funding from strategic partners, including Indigo. Indigo retained 57.7% ownership of Kobo. The Company also operates seasonal kiosks and year-round stores in shopping malls across Canada through its Calendar Club of Canada Limited Partnership.

In October 2005, Indigo incorporated a separate registered charity under the name Indigo Love of Reading Foundation (the "Foundation"). The Foundation provides new books and learning material to high-needs elementary schools across the country through donations from Indigo, its customers, suppliers and employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its subsidiary companies. All significant intercompany balances and transactions have been eliminated on consolidation. Management has determined that substantially all the Company's operations are in one reportable segment. 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 income (loss) accruing to non-controlling interest holders is disclosed as a separate line item in the consolidated statements of earnings and comprehensive earnings.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Joint venture

The accounts of the Company reflect its proportionate interest in retail activities conducted through a joint venture.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid investments that are readily convertible to cash with less than three months to maturity at the date of acquisition.

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. Vendor rebates are recorded as a reduction in the price of the vendor's products and corresponding inventory is recorded net of vendor rebates.

Income taxes

The Company follows the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Prepaid expenses

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

Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis. The depreciation periods are as follows:

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

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate that their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposition. The evaluation is performed for the lowest level of a group of assets and liabilities. An impairment loss, if required, is measured as the excess of the carrying value of the asset over its fair value. The Company reviews long-lived assets for impairment at least annually.

Leasehold improvements are depreciated over the lesser of their economic life or the "lease term", representing the initial lease term and including renewal periods only where renewal has been determined to be reasonably assured.

Intangible assets

Intangible assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis. The amortization periods are as follows:

Computer application software	3 – 5 years
Development costs	3 years

The Company reviews the intangible assets for impairment at least annually.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the value assigned to the net identifiable assets, including intangible assets, acquired at the date of acquisition. Goodwill is not amortized but is subject to review for impairment at the reporting unit level on an annual basis and at any other time if events occur or circumstances change that suggests goodwill could be impaired. Fair value is determined using the discounted cash flow method.

Gift cards

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

The Company recorded $4.7 million in gift card breakage in fiscal 2010, and $4.6 million in gift card breakage in fiscal 2009.

Deferred revenue

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

Revenue recognition

The Company recognizes revenue when the substantial risks and rewards of ownership pass to the customer. Revenue for retail and Kobo customers is recognized at the point of sale and revenue for online customers is recognized when the product is shipped. The Company reports its revenues net of sales discounts and returns and is inclusive of amounts invoiced for shipping.

Leased premises

The Company conducts a substantial part of its business from leased premises. Leasehold improvements are depreciated over the lesser of their economic life or the "lease term", representing the initial lease term and including renewal periods only where renewal has been determined to be reasonably assured.

Leasehold improvements are reviewed for impairment and impairment losses are measured as described above under property, plant and equipment policy. The Company also uses this lease term to evaluate whether its leases are operating or capital leases. As at April 3, 2010 and March 28, 2009, all of the Company's leases on premises were accounted for as operating leases.

Inducements received from landlords, including leasehold improvement allowances, are depreciated over the lease term.

Stock-based compensation

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model and expensed over the option's vesting period. Any consideration paid by employees on exercise of stock options is credited to share capital, with a corresponding reduction to contributed surplus.

Earnings per share

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

Foreign currency translation

Sales transacted in foreign currencies are aggregated monthly and translated using the average exchange rate. Transactions in foreign currencies are translated at rates of exchange at the time of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at exchange rates in effect at the consolidated balance sheet dates with the resultant gains or losses included in net earnings for the period.

Financial instruments

The Company revalues certain of its financial assets and liabilities, including derivatives designated in qualifying hedging relationships and embedded derivatives in certain contracts, at fair value at each financial reporting date.

Financial assets and liabilities are classified according to their characteristics and management's intentions for the purposes of ongoing measurement.

Classification for financial assets includes:

a) held-for-trading – measured at fair value with changes in fair value recorded in net earnings;
b) held-to-maturity – recorded at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period that the asset is de-recognized or impaired;
c) available-for-sale – measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through de-recognition or impairment; and
d) loans and receivables – recorded at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period that the asset is de-recognized or impaired.

Classification for financial liabilities includes:

a) held-for-trading – measured at fair value with changes in fair value recorded in net earnings; and
b) other – measured at amortized cost using the effective interest rate method, with gains and losses recognized in net earnings in the period that the liability is de-recognized.

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

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

Other balance sheet accounts, such as inventories, prepaid expenses, income taxes recoverable/payable, future income taxes, property, plant and equipment, goodwill, intangible assets and deferred revenue are not financial instruments.

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

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

(i) The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values given their short maturities; and
(ii) The fair value of long-term debt is estimated based on the discounted cash payments of the debt at the Company's estimated incremental borrowing rates for debt of the same remaining maturities. The fair value of the long-term debt approximates its carrying value.

Comprehensive income

Other comprehensive income includes revenues, expenses, gains and losses that, in accordance with primary sources of Canadian GAAP, are recognized in comprehensive income, but excluded from net earnings. The Company reports changes in the fair value of certain of these financial assets and liabilities (i.e., the effective portion of changes in the fair value of a derivative designated in a cash flow hedging relationship) in the "Consolidated Statements of Earnings and Comprehensive Earnings". Any "accumulated other comprehensive income" (i.e., the portion of comprehensive income not already included in net earnings) will be presented as a separate line item in shareholders' equity.

Hedges

When the Company enters into foreign currency option contracts to hedge future purchases of U.S. dollar denominated goods and services, the fair value of these contracts is included in derivative liabilities. The changes in fair value of these contracts are included in other comprehensive income/loss to the extent the hedges continue to be effective. When the inventory is sold, the corresponding gain or loss deferred in accumulated other comprehensive income/loss is re-classified to cost of sales, operations, selling and administration. To the extent the change in fair value of the derivative is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in net earnings. The Company did not enter into any hedge contracts in fiscal 2010 or fiscal 2009.

3. CHANGES IN ACCOUNTING POLICIES

Adoption of financial instrument amendments

In June 2009, the Canadian Institute of Chartered Accountants ("CICA") amended CICA Handbook Section 3862, "Financial Instruments – Disclosures." The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for financial statement preparers, the CICA decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described as follows, for disclosure purposes. Each level reflects the significance of the inputs used in making the fair value measurements.

Fair value of financial assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly, other than the quoted prices. Level 3 valuations are based on inputs that are not based on observable market data.

The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments or the liquidity risk disclosures. Cash and cash equivalents are the only financial instrument which Indigo measures at fair value. As at April 3, 2010, Indigo classified its cash as a Level 1 asset and had no cash equivalents. Indigo has no Level 2 or Level 3 assets or liabilities as at April 3, 2010.

The Company has also adopted CICA amendments to Section 3855, "Financial Instruments – Recognition and Measurement." Section 3855 was revised to: (i) change categories into which a debt instrument is required or permitted to be classified; (ii) apply the incurred credit loss model to held-to-maturity financial assets; and (iii) require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances, as well as providing specific transitional guidance. A further amendment to Section 3855 was made to clarify the application of the effective interest method after a debt instrument has been impaired. Implementation of these amendments did not have an impact on Indigo's results of operations, financial position or disclosures.

Section 3855 was also amended to add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. This amendment is effective for reclassifications made on or after July 1, 2009. Adoption of this amendment did not have an impact on Indigo's results of operations, financial position or disclosures.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee ("EIC") issued a new abstract concerning the measurement of financial assets and financial liabilities, EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." There had been diversity in practice as to whether an entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The EIC reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. EIC 173 was effective for all financial assets and financial liabilities measured at fair value in interim and annual financial statements issued for periods ending on or after the date of issuance of EIC 173, with retrospective application without restatement of prior periods. The Company adopted EIC 173 at the beginning of its current fiscal year. The implementation did not have an impact on the Company's results of operations, financial position or disclosures.

New Accounting Pronouncements

Financial Instruments – Recognition and Measurement

In April 2009, the CICA amended Section 3855, "Financial Instruments – Recognition and Measurement," to provide guidance on when an embedded prepayment option is separated from its host debt instrument. The amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. The amendment will not have an impact on Indigo's results of operations, financial position or disclosures.

Business Combinations

Section 1582 of the CICA Handbook, "Business Combinations", replaces the existing Section 1581, "Business Combinations." The CICA also issued Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests", which replaces Section 1600, "Consolidated Financial Statements." These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations" and will replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The three new standards have to be adopted concurrently and will apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. Section 1602 should be applied retrospectively except for certain items. The Company plans to adopt the new accounting standards for fiscal 2012. Adoption of the new standards will have no retrospective impact on Indigo's results of operations, financial position or disclosures.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed its plan to converge with IFRS. The Company must prepare interim and annual financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. The Company's launch of its IFRS conversion project began in 2008 when it established an internal project team and engaged an external consultant to conduct a preliminary diagnosis and scoping exercise. To date, the project team has completed a detailed assessment of each standard, including identifying the differences between the Company's current policies and those under IFRS, and determined the financial implications that will result from the adoption of these new standards. The team, with the assistance of its external consultant, has prepared a sample of the Company's historical financial statements using IFRS. Project plans are being developed to address the information technology and data system impacts, disclosure controls and procedures and internal controls over financial reporting.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

(thousands of dollars)	April 3, 2010 Cost	April 3, 2010 Accumulated depreciation	March 28, 2009 Cost	March 28, 2009 Accumulated depreciation
Furniture, fixtures and equipment	**57,061**	**26,107**	62,336	34,505
Computer equipment	**17,825**	**6,739**	18,484	7,153
Leasehold improvements	**47,022**	**15,221**	48,768	21,805
Equipment under capital lease	**14,023**	**10,386**	13,760	7,748
	135,931	**58,453**	143,348	71,211
Less accumulated depreciation	**58,453**		71,211	
Net book value	**77,478**		72,137	

As at April 3, 2010, the Company has $0.4 million (March 28, 2009 – $0.7 million) of leasehold improvements that are not being depreciated because the stores are still under construction. The depreciation expense associated with capital leases was $3.4 million (March 28, 2009 – $3.3 million).

During the year, the Company completed a review of property, plant and equipment useful lives. Based on this review, the Company has revised the estimated useful lives of certain assets within the furniture, fixtures and equipment and leasehold improvements asset classes. The revised estimates have been applied prospectively and the impact of application is immaterial.

In order to conform with fiscal 2010 presentation, the fiscal 2009 comparative balances have been adjusted to remove assets which had a net book value of nil as at March 28, 2009.

5. GOODWILL AND INTANGIBLE ASSETS

As at April 3, 2010, the Company has $26.6 million (March 28, 2009 – $27.5 million) of goodwill. As part of the Kobo transaction in fiscal 2010, a $0.9 million deemed disposition of Indigo's existing consolidated goodwill occurred. There were no adjustments to goodwill required as a result of the Company's annual goodwill impairment testing.

Intangible assets consist of the following:

(thousands of dollars)	April 3, 2010 Cost	April 3, 2010 Accumulated amortization	March 28, 2009 Cost	March 28, 2009 Accumulated amortization
Product design costs	–	–	736	118
Computer application software	**25,187**	**8,208**	17,409	7,339
Development costs	**37,017**	**30,202**	32,837	27,226
	62,204	**38,410**	50,982	34,683
Less accumulated amortization	**38,410**		34,683	
Net book value	**23,794**		16,299	

In order to conform with fiscal 2010 presentation, the fiscal 2009 comparative balances have been adjusted to remove assets which had a net book value of nil as at March 28, 2009.

6. INCOME TAXES

Future 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 future tax assets are as follows:

(thousands of dollars)	April 3, 2010	March 28, 2009
Current future tax assets		
Reserves and allowances	6,615	6,181
Net current future tax assets	6,615	6,181

(thousands of dollars)	April 3, 2010	March 28, 2009
Non-current future tax assets		
Tax loss carryforwards	21,711	7,320
Book amortization in excess of cumulative eligible capital deduction	321	409
Book amortization in excess of capital cost allowance	19,537	28,693
Non-current future tax assets before valuation allowance	41,569	36,422
Valuation allowance	(675)	–
Net non-current future tax assets	40,894	36,422

Significant components of income tax expense are as follows:

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Current income tax expense	1,481	344
Future income tax expense relating to origination and reversal of temporary differences	4,742	7,071
Increase in valuation allowance	675	–
Reversal of deferred credit	(4,388)	–
Future income tax expense relating to utilization of loss carryforwards	8,199	7,817
Adjustment to future tax assets resulting from reduction in substantively enacted tax rates	1,827	(144)
Other, net	1	(11)
Total income tax expense	12,537	15,077

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

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Tax at combined federal and provincial tax rates (2010: 31.58%, 2009: 32.41%)	15,223	14,820
Tax effect of expenses not deductible for income tax purposes	188	412
Tax effect of non-taxable portion of dilution gain on sale of non-controlling interest in subsidiary	(786)	–
Increase in valuation allowance	675	–
Reversal of deferred credit	(4,388)	–
Adjustment to future tax assets resulting from reduction in substantively enacted tax rates	1,827	(144)
Other, net	(202)	(11)
	12,537	15,077

As at April 3, 2010, the Company has combined non-capital loss carryforwards of approximately $69.6 million for income tax purposes that expire in 2030 if not utilized.

7. SHARE CAPITAL

Share capital consists of the following:

Authorized

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

Unlimited common shares, voting

	53-week period ended April 3, 2010		52-week period ended March 28, 2009	
	Number of shares	Amount $ (thousands)	Number of shares	Amount $ (thousands)
Balance, beginning of period	24,526,272	196,471	24,843,147	198,938
Issued during the period				
Directors' deferred stock units converted	5,000	70	–	–
Options exercised	245,156	2,362	39,750	390
Repurchase of common shares	(33,513)	(268)	(356,625)	(2,857)
Balance, end of period	24,742,915	198,635	24,526,272	196,471

During fiscal 2010, the Company issued 5,000 common shares in exchange for Directors' deferred stock units when a Board member resigned.

On October 27, 2009, the Company announced its intent to make a normal course issuer bid ("NCIB"), subject to final acceptance of its notice of intention by the Toronto Stock Exchange. The Toronto Stock Exchange approved the NCIB on October 27, 2009. Under the NCIB, Indigo may purchase up to 1,227,229 of its common shares, representing approximately 5% of its total outstanding common shares. Daily purchases will be limited to 2,571 common shares, other than block purchase exemptions. During fiscal 2010, the Company repurchased 33,513 common shares (2009 – 356,625 common shares) at an average price of $13.32 per share (2009 – $14.09 per share) for a total cash consideration of $0.4 million (2009 – $5.0 million) under the NCIB. The repurchased shares were cancelled and returned to treasury. The cash consideration exceeded the carrying value of the shares repurchased by $0.2 million (2009 – $2.2 million) and the amount was charged to retained earnings.

The Company calculates diluted earnings per share using the treasury stock method. In calculating diluted earnings per share amounts under this method, the numerator remains unchanged from the basic earnings per share calculations as the assumed exercise of the Company's stock options and the conversion of the deferred stock units do not result in an adjustment to earnings.

The reconciliation of the denominator in calculating diluted earnings per share amounts is as follows:

(in thousands)	**53-week period ended April 3, 2010**	52-week period ended March 28, 2009
Weighted average number of common shares outstanding, basic	**24,550**	24,675
Effect of dilutive securities		
– Stock options	**365**	390
– Deferred stock units	**192**	167
Weighted average number of common shares outstanding, diluted	**25,107**	25,232

8. STOCK-BASED COMPENSATION

The Company has established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan is 2,224,292. Most options granted since May 21, 2002 have one fifth of the options granted exercisable one year after the date of issue with the remainder exercisable in equal instalments on the anniversary date over the next four years. A small number of options have special vesting schedules that were approved by the Board.

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 and expenses this value over the vesting period. The fair value of stock options that were granted in fiscal 2010 was $2.3 million (2009 – $0.4 million). The weighted-average fair value of options issued in fiscal 2010 was $4.16 per option (2009 – $4.26 per option).

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

	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Risk-free interest rate	**2.2%**	2.7%
Expected volatility	**42.0%**	34.7%
Expected time until exercise	**5.9 years**	5.0 years
Expected dividend yield	**3.1%**	0.0%

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

	April 3, 2010		March 28, 2009	
	Number #	Weighted average exercise price $	Number #	Weighted average exercise price $
Outstanding options, beginning of period	**1,627,145**	**11.73**	1,649,379	11.38
Granted	**550,000**	**13.54**	100,000	12.51
Forfeited	**(104,157)**	**18.46**	(82,484)	7.87
Exercised	**(245,156)**	**7.78**	(39,750)	7.23
Outstanding options, end of period	**1,827,832**	**12.42**	1,627,145	11.73
Options exercisable, end of period	**755,832**	**9.97**	808,457	9.01

Options outstanding and exercisable

	April 3, 2010				
	Outstanding			Exercisable	
Range of exercise prices $	Number #	Weighted average exercise price $	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price $
4.00 – 5.99	**232,600**	**5.01**	**4.0**	**232,600**	**5.01**
6.00 – 9.99	**228,942**	**7.64**	**4.4**	**194,942**	**6.48**
10.00 – 15.99	**1,136,000**	**13.99**	**8.2**	**245,000**	**3.03**
16.00 – 24.99	**227,000**	**16.68**	**7.3**	**80,000**	**5.89**
25.00 – 64.00	**3,290**	**33.74**	**3.3**	**3,290**	**33.74**
4.00 – 64.00	**1,827,832**	**12.42**	**7.1**	**755,832**	**9.97**

On October 31, 2002, the Company established a Directors' Deferred Stock Unit Plan ("DSU Plan"). Under the DSU Plan, Directors receive their annual retainer fees and other Board-related compensation in the form of deferred stock units ("DSUs"). The number of shares reserved for issuance under this plan is 250,000. The Company issued 30,755 DSUs with a value of $0.4 million during the period ended April 3, 2010 (2009 – $0.4 million). The fair value of the outstanding DSUs as at April 3, 2010 was $2.0 million (2009 – $1.6 million) and was recorded in contributed surplus.

As part of the Kobo transaction in fiscal 2010, the Company entered into agreements to allow one Indigo Director and one Kobo Director to purchase shares of Kobo. These agreements allow for the purchase of up to 200,000 Kobo shares directly from Indigo. The agreements may only be exercised upon fulfilment of specified performance conditions. As at April 3, 2010, the Company has assessed fulfillment of the performance conditions as unlikely and, as such, no amount has been recorded relating to these agreements.

The effect of stock-based compensation transactions on contributed surplus is presented below:

	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Balance, beginning of period	3,685	2,564
Options expensed	1,130	862
DSUs expensed	378	362
Options exercised	(453)	(103)
DSUs exercised	(70)	–
Balance, end of period	4,670	3,685

9. INVENTORIES

The cost of inventories recognized as an expense was $538.5 million in fiscal 2010 (2009 – $532.4 million). The amount of inventory write-downs as a result of net realizable value lower than cost was $1.3 million in fiscal 2010 (2009 – $1.7 million), and there were no reversals of inventory write-downs that were recognized in prior periods. The amount of inventory with net realizable value equal to cost was $1.2 million as at April 3, 2010 (2009 – $1.9 million).

10. FINANCIAL RISK MANAGEMENT

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

Foreign exchange risk

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollar. Decreases in the value of the Canadian dollar relative to the U.S. dollar affect less than 10% of the Company's total cost of purchases and could negatively impact the Company's net earnings. Additionally, the Company's overall U.S. dollar exposure is immaterial. The Company does not use foreign currency derivative contracts to hedge its foreign exchange risk.

The strategic partnerships entered into by Kobo are anticipated to result in sales to American, European, Asian and Australian customers. Therefore, foreign exchange risk is expected to increase as Kobo expands its operations. Kobo is in the start-up phase of operations and its current impact on foreign exchange risk is not significant.

Interest rate risk

The Company's interest rate risk is limited to the fluctuation of floating rates on its cash and cash equivalents. The Company does not use any interest rate swaps to fix the interest rate on its cash and cash equivalents.

Credit risk

The Company's credit risk is considered to be negligible as the Company only deals with highly rated financial institutions. In addition, the Company has minimal accounts receivable as its customers pay mainly by cash or credit card. The maximum exposure to credit risk at the reporting date is equal to the carrying value of the accounts receivable.

Liquidity risk

The Company manages liquidity risk by maintaining available financial assets in excess of financial obligations due at any point in time.

Current and long-term liabilities

The contractual maturities of the Company's current and long-term liabilities as at April 3, 2010 are as follows:

(thousands of 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	168,932	56,781	4,207	229,920
Current portion of long-term debt	–	1,863	–	1,863
Long-term debt	–	–	1,174	1,174
Long-term accrued liabilities	–	–	8,203	8,203
Total	168,932	58,644	13,584	241,160

11. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern while maintaining adequate financial flexibility to invest in new business opportunities that will provide attractive returns to shareholders. The primary activities engaged by the Company to generate attractive returns include the construction and related leasehold improvements of new and relocated stores, the development of new business concepts, and investment in information technology and distribution capacity to support the expansion of the store and online network. The Company's main sources of capital are cash flows generated from operations and long-term debt. This cash flow is used to fund its capital expenditures, working capital needs, debt service requirements, and dividend distribution to shareholders. There were no changes to these objectives during fiscal 2010.

The Company had a $30.0 million revolving line of credit in place in the first half of fiscal 2010. The line of credit expired on October 15, 2009 and was not renewed (March 28, 2009 – no funds were drawn against this facility).

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

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

(thousands of dollars)	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Current portion of long-term debt	1,863	2,734
Long-term debt	1,174	2,272
Total debt	3,037	5,006
Shareholders' equity	258,969	230,890
Total debt : Shareholders' equity	0.01:1	0.02:1

As at April 3, 2010, the Company had outstanding letters of credit totalling $0.3 million (March 28, 2009 – $0.3 million).

12. JOINT VENTURE

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

The following amounts represent the total assets, liabilities, revenues and expenses and cash flows of the Company's joint venture in which the Company participates and its proportionate share therein:

	Total		Proportionate share	
(thousands of dollars)	**2010**	2009	**2010**	2009
Current assets	**3,434**	4,106	**1,717**	2,053
Long-term assets	**1,469**	1,613	**735**	807
Current liabilities	**2,195**	3,160	**1,098**	1,580
Revenue	**31,745**	32,006	**15,873**	16,003
Expenses	**28,804**	30,064	**14,402**	15,032
Net earnings	**2,941**	1,942	**1,471**	971
Cash flows provided by (used in)				
Operating activities	**2,619**	2,781	**1,310**	1,390
Investing activities	**(434)**	(42)	**(217)**	(21)
Financing activities	**(2,792)**	(2,586)	**(1,396)**	(1,293)
Net cash flow	**(607)**	153	**(303)**	76

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(thousands of dollars)	**April 3, 2010**	March 28, 2009
Accounts payable and accrued liabilities	**179,159**	194,494
Provision for unredeemed gift cards	**37,816**	34,471
Deferred credit	**12,945**	4,388
Total	**229,920**	233,353

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of dollars)	**53-week period ended April 3, 2010**	52-week period ended March 28, 2009
Interest received	**(9)**	(1,178)
Income taxes paid	**2,382**	–
Assets acquired under capital lease	**1,062**	2,762

15. SALE OF NON-CONTROLLING INTEREST IN SUBSIDIARY

In February 2009, Indigo launched *Shortcovers* (*www.shortcovers.com*), a new digital destination offering online and mobile service that provides instant access to books, articles and blogs. On December 14, 2009, Indigo transferred the net assets of *Shortcovers* into a new company, Kobo Inc. ("Kobo") and renamed the *Shortcovers* website to *www.kobobooks.com*. Net assets with a carrying amount of $3.9 million were exchanged for 10,000,000 Kobo common shares. This transfer was accounted for as a related-party transaction at carrying value.

On December 15, 2009, Kobo secured $5.0 million of funding from Indigo and $11.0 million of funding from unrelated investors (the "Syndicate"). Common shares were issued to Indigo and the Syndicate at a price of $1.00 per common share. Indigo holds a total of 15,000,000 common shares of Kobo resulting in 57.7% ownership. The Syndicate invested a total of $11.0 million in exchange for 11,000,000 common shares and 42.3% ownership in Kobo. Indigo retains control over Kobo and continues to consolidate Kobo in the Company's consolidated financial statements. Non-controlling interest related to the net assets of the Syndicate have been reflected separately on the Company's consolidated balance sheets and Syndicate participation in Kobo operating losses for this fiscal year has been recorded as an increase to consolidated earnings.

Kobo was originally a wholly-owned subsidiary of Indigo and the issuance of additional Kobo shares to the Syndicate diluted Indigo's ownership to 57.7% and resulted in a dilution gain of $3.0 million for Indigo. The transaction also resulted in a $0.9 million deemed disposition of Indigo's existing consolidated goodwill. As part of this transaction, Indigo received a $1.0 million reimbursement of Kobo expenses which was included in the calculation of the recognized dilution gain.

16. WRITE-OFF OF CAPITAL ASSETS

The Company wrote off $1.1 million of capital assets relating to Pistachio product design costs and Pistachio store assets in fiscal 2010 (2009 – nil). These assets were written off because Indigo is no longer using these product designs and the Company closed one Pistachio store during the year.

17. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at April 3, 2010, the Company had the following commitments:

(i) *Operating lease obligations*

The Company had operating lease commitments in respect of its stores, support office premises and certain equipment. The leases expire at various dates between 2011 and 2020 and are subject to renewal options in certain cases. Annual store rent consists of a base amount plus, in some cases, additional payments based on store sales; and

(ii) *Capital lease obligations*

The Company entered into capital lease agreements for certain equipment. The obligations under these capital leases is $3.0 million (2009 – $5.0 million), of which $1.9 million (2009 – $2.7 million) is included in the current portion of long-term debt. The remainder of the capital lease obligations have been included in the non-current portion of long-term debt.

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

(millions of dollars)	Operating leases	Capital leases	Total
2011	62.8	1.9	64.7
2012	57.4	0.7	58.1
2013	47.5	0.4	47.9
2014	35.3	–	35.3
2015	21.2	–	21.2
Thereafter	43.3	–	43.3
Total obligations	267.5	3.0	270.5

(b) Legal claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2010 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

18. RELATED PARTY TRANSACTIONS

On April 1, 2010, Indigo purchased a company, the sole asset of which is certain tax losses, from a public company controlled by Mr. Gerald W. Schwartz, who is also the controlling shareholder of Indigo. Indigo acquired this company with $69.6 million of non-capital tax losses in exchange for net cash consideration of $7.7 million. The amount included transaction costs shared between the two companies. This transaction was recorded at the exchange amount. As a result, the Company recorded a future tax asset of $20.7 million and the difference of $13.0 million between the net cash consideration and the future tax asset was recorded as a deferred credit, included in accounts payable and accrued liabilities. As these acquired non-capital losses are utilized, the deferred credit will be proportionately recognized as a reduction of income tax expense.

Indigo completed a similar transaction in fiscal 2009, acquiring a company with $23.1 million of non-capital tax losses in exchange for net cash consideration of $2.9 million. The transaction was recorded at the exchange amount and the Company recorded a future tax asset of $7.3 million with the difference of $4.4 million between the net cash consideration and the future tax asset recorded as a deferred credit.

19. SUBSEQUENT EVENT

On April 19, 2010, the Board of Directors approved a 10% increase in the Company's quarterly dividend, raising it from $0.10 per common share to $0.11 per common share. This is equivalent to an annual dividend of $0.44 per share. The first of the new quarterly dividends will be paid to shareholders of record as of the close of business on May 5, 2010, with a payment date of May 19, 2010.

Corporate Governance Policies

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

Executive Management and Board of Directors

EXECUTIVE MANAGEMENT

Heather Reisman
Chair & Chief Executive Officer

Kay Brekken
Senior Vice President, Finance & Chief Accounting Officer

Sue Croft
Senior Vice President, Human Resources & Organizational Development

Kathleen Flynn
General Counsel & Secretary

Joyce Gray
Executive Vice President, Retail & Customer Experience

Deirdre Horgan
Chief Marketing Officer

Ross Marancos
Executive Vice President, Supply Chain

Jim McGill
Chief Operating Officer & Chief Financial Officer

Sumit Oberai
Chief Information Officer

Joel Silver
President

Andrew Sloss
Executive Vice President, Online

BOARD OF DIRECTORS

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President & Chief Executive Officer
The Bay, Hudson's Bay Company

Frank Clegg
Chairman
Navantis Inc.

Jonathan Deitcher
Investment Advisor
RBC Investments

Mitchell Goldhar
President & Chief Executive Officer
SmartCentres

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

Michael Kirby
Corporate Director
Chair of the Mental Health Commission of Canada

Bruce Mau
Chairman & Creative Director
Bruce Mau Design

Anne Marie O'Donovan
Executive Vice President & Chief Administration Officer
Scotia Capital

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

Gerald Schwartz
Chairman, President & CEO
Onex Corporation

Five Year Summary of Financial Information

For the years ended (millions of dollars, except share and per share data)	April 3, 2010	March 28, 2009	March 29, 2008	March 31, 2007	April 1, 2006
SELECTED STATEMENTS OF EARNINGS INFORMATION					
Revenues					
Superstores	**670.5**	634.7	620.0	591.0	573.5
Small format stores	**157.4**	166.2	159.7	157.1	160.9
Online	**92.2**	95.2	101.4	86.7	79.5
Other	**48.8**	44.3	41.8	40.2	37.9
Total revenues	**968.9**	940.4	922.9	875.0	851.8
EBITDA[1]	**73.0**	72.5	73.9	65.7	56.6
Restructuring and take-over costs (recovery)	**–**	–	–	(0.3)	(2.1)
Earnings before income taxes and non-controlling interest	**46.1**	45.8	44.0	29.9	25.7
Dividends per share	**$0.40**	–	–	–	–
Net earnings per common share	**$1.42**	$1.24	$2.13	$1.23	$1.05
SELECTED BALANCE SHEET INFORMATION					
Working capital	**106.4**	87.1	76.6	28.8	0.7
Total assets	**519.8**	487.5	421.0	397.3	390.7
Long-term debt (including current portion)	**3.0**	5.0	6.0	20.5	31.8
Shareholders' equity	**259.0**	230.9	203.8	148.8	115.7
Long-term debt/(long-term debt + shareholders' equity)	**0.01:1**	0.02:1	0.03:1	0.12:1	0.22:1
Weighted average number of shares outstanding	**24,549,622**	24,674,523	24,744,334	24,359,451	24,133,726
Common shares outstanding at end of period	**24,742,915**	24,526,272	24,843,147	24,647,554	24,255,918
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**96**	90	86	88	86
Small format stores	**150**	155	158	158	164
Selling square footage at end of period (in thousands)					
Superstores	**2,217**	2,110	2,042	2,090	2,058
Small format stores	**412**	415	422	425	441
Comparable store sales					
Superstores	**0.6%**	2.4%	4.4%	2.5%	10.2%
Small format stores	**(2.2%)**	4.3%	3.0%	2.2%	4.3%
Sales per selling square foot					
Superstores	**302**	301	304	283	279
Small format stores	**382**	400	378	370	365

1 Earnings before interest, taxes, depreciation, amortization, non-controlling interest and non-recurring items. Also see "Non-GAAP Financial Measures".

Investor Information

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Chief Operating Officer & Chief Financial Officer
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MEDIA CONTACT

Janet Eger
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Telephone (416) 342-8561

STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

IDG

TRANSFER AGENT AND REGISTRAR

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AUDITORS

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Canada M5K 1J7

ANNUAL MEETING

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

Indigo's Annual Meeting will be held on July 6, 2010 at 10:00 a.m. at The MaRS Centre, South Tower, 101 College Street, Suite 100, Toronto, Ontario, Canada.

Shareholders are encouraged to attend and guests are welcome.

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Our Values

- We exist to add joy to customers' lives. We anticipate their needs and exceed their expectations.
- Excellence matters in everything we do.
- Success is only attainable through outstanding people working together in an open environment that promotes knowledge and growth.
- Books, reading, and storytelling are an integral part of advancing society.
- Innovation is the key to growth and can come from anyone, anytime.
- We have a responsibility to give back to the communities in which we operate.

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