ANNUAL REPORT

FOR THE 52-WEEK PERIOD ENDED APRIL 2, 2011

At Indigo, we believe in storytelling, in ideas and in experiences that enrich our every day.

Indigo

Enrich your life

Chapters Indigo COLES 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.

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

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Report of the CEO

Dear Shareholder,

2010 will be remembered as a tipping point year in our industry – the year reading digitally went mainstream. We at Indigo will remember it as the year we marched boldly into the world of eReading and worked to transform our core business to meet the changing behaviour of our customers.

This process of adaptation requires that we invest heavily in transforming our business while absorbing the short-term impact of lower sales and margins in our core business. Our results reflect this reality.

From a top line perspective Indigo achieved a key milestone – we grew sales by 5% (in a year with one less week), and in so doing, crossed the billion dollar mark. By sales, Indigo today ranks 294th in the Canadian Business list of Canada's top 500 publicly traded companies.

Several of the factors impacting profits were temporal – we were up against a 53-week year, eBooks had negative margins in Canada while we waited for Agency terms to be put in place (as of the writing of this note this is close to concluded), we absorbed operating costs related to the start up of our proprietary product division, and it was a year totally bereft of hits.

INDIGO'S TRANSFORMATIONAL AGENDA

The most important thing to report to shareholders is the intensity of work going on within the company to transform… to seize the global growth opportunity in digital reading while at the same time we evolve the offering in our Canadian stores to address the impact of declining physical book sales. Below are the highlights of our Transformational Agenda:

Achieve a Meaningful Position in the Global eReading Market through Kobo

The global eReading market is large and growing. We are participating in this market through our new company, Kobo. 2010 was a very exciting "coming out" year for Kobo. Over the course of the year:

- Kobo launched a first and second generation eReader in Canada, the U.S., Asia, Australia and New Zealand.
- Kobo's eReading application for Apple's iPhone and iPad, earned the highest rating of any eReading application in Apple's App Store;
- Kobo was selected by both Samsung and BlackBerry to be the embedded reading applications on their new tablets;

The Kobo team signed up affiliates to launch the Kobo service in Europe and Asia; and they introduced the innovative "Reading Social" experience. (If you haven't already, check it out when you purchase your first Kobo eBook.)

During the fourth quarter of fiscal 2011 and the first quarter of fiscal 2012, Kobo raised $50 million of financing to fuel further growth and launched a highly advanced touch eReader.

From an almost standing start the year before, these represent significant achievements. We recognize that in the early stages Kobo will absorb financial resources; however, we feel confident that the investments we are making will pay off handsomely for shareholders.

Some interesting Kobo stats:

- 3.6 million readers – 10 months to 1 million, 90 days to 2 million, 65 days to 3 million
- Customers from over 100 countries shop at Kobo each week
- More than one book per second downloaded at peak hours
- Millions of books have been downloaded
- 5 million awards given to readers since December 2010 for reading
- #1 Rated Free Book App Worldwide on iPad, iPhone, and iPod Touch

Launch Indigo Proprietary Gift and Lifestyle Product to Build Customer Loyalty and Operating Margin

In the 14 years that Indigo has been in business, we have built exceptional relationships with our customers and in the broad base of communities in which we operate. As some of our customers turn to eReading, our opportunity is to expand our offering to include products which, like books, in one way or another enrich the lives of our customers. Toward this end, a journey we began a number of years ago to offer gift and lifestyle product, will now become a more significant part of our business.

This year we established our own product design and development team so that we can bring to market our own exceptionally designed and well priced gift and lifestyle product. We believe that in an age when most product can be purchased online at ever cheaper prices – control over product design and development is critical. In the early stages this decision will, like Kobo, impact our bottom line. However we believe in the medium term this move will be hugely beneficial. We look forward to launching our first line-up of Indigo proprietary product in the fall of 2011.

Launch Kobo In Store

In parallel with the global launch of Kobo, Indigo and Chapters launched Kobo Central in-store. Selling an electronic product is an entirely new experience for us and it was exciting to establish areas in our stores where our customers could experiment with and fall in love with Kobo. Consumer acceptance and response to Kobo has been wonderful. We intend to further expand this experience so that our customers – the reading public – know that our stores are the place to come whether buying physical or digital reading material.

Continue Expansion of IndigoKids

Over the last few years, we began expanding our IndigoKids business to include "edutainment" toys. We are continuing to expand this business both in store and online. This year we added an additional 12 new full-line toy stores to our fleet confirming our position as the largest specialty toy retailer in Canada. Our intention is to continue this expansion in our remaining large format Indigo and Chapters' stores.

Transforming Our Experience – Both In Store and Online

Part and parcel of reshaping our offering to include Kobo and Kobo accessories, expanded gift and lifestyle product, and full-line toy shops – is the need to reshape elements of both our physical store experience and our online experience. This reshaping includes changes in merchandising, changes in our approach to communicating online, changes in store set-ups, and enhanced employee training. We began this work late in 2010 and intend to continue our efforts through 2011 and 2012.

On the win front…this past year we launched our Plum Rewards Program as a compliment to our fee-based iRewards program. The Plum Rewards Program is a free reward program which allows customers to earn points on all the products in our stores and online. As a result of Plum we will increase to over three million the number of customers with whom we will directly communicate.

Transforming the "Back of House"… Driving Productivity

Buttressing the consumer facing initiatives is ongoing work to drive productivity. This past year we implemented a new online warehouse capable of handling toys and general merchandise product. We will implement important changes to our retail warehouse which was fundamentally designed to handle only books. We will also advance other aspects of our supply chain to implement the sourcing and product safety capabilities necessary to support our general merchandise initiative. And, as is essential during a time of change, we have established a major strategic thrust to look at end-to-end productivity.

In total, we have committed to a two-year Transformational Agenda which will engage our employees, as well as our customers. I want to take this opportunity to thank each and every one of our employees for the tremendous contribution that they have all made this year. I also want to thank our customers who tell us every day that we make a difference in their lives. And finally, I want to thank our shareholders. Management is strongly invested with you in this enterprise. Our objectives are aligned. The short term will be difficult, but this is a journey worth taking – for sure.

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 consolidated 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

Heather Reisman
Chair and Chief Executive Officer

Kay Brekken
Chief Financial Officer

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") is prepared as at May 31, 2011 and is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 52-week period ended April 2, 2011 and the 53-week period ended April 3, 2010. 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*.

The attached Annual Report will be the Company's final report prepared under Canadian Generally Accepted Accounting Principles. Beginning with the July 2, 2011 unaudited interim consolidated financial statements, the Company will prepare all interim and annual reports in accordance with International Financial Reporting Standards ("IFRS").

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 2, 2011, the Company operated 97 superstores under the banners *Chapters*, *Indigo* and the *World's Biggest Bookstore*, 149 small format stores, under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks* and *The Book Company* and one concept store under the banner *Pistachio*. During fiscal 2011, the Company opened one superstore and closed one small format store. 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 which offered online and mobile service that provided instant access to books. In December 2009, Indigo transferred the net assets of Shortcovers into a new company, Kobo Inc. ("Kobo"). The Shortcovers website has been renamed to *www.kobo.com* and Kobo provides instant access to books, newspapers, magazines and other digital content. Kobo has launched localized instances of *www.kobo.com* in several countries and offers its download service to users worldwide. Kobo also develops eReader devices which are sold through wholesale and retail channels. As at April 2, 2011, Indigo owned 58.3% of Kobo's outstanding common shares.

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 fiscal 2011 was 24,874,199 as compared to 24,549,622 last year. As at May 31, 2011, the number of outstanding common shares was 25,158,540 with a book value of $202.5 million. The number of common shares reserved for issuance under the employee stock option plan is 2,265,854 as at May 31, 2011. As at April 2, 2011, there were 1,799,100 stock options outstanding of which 623,100 were exercisable.

General Development of the Business

The Company launched its first superstore with a commitment to enriching Canadian lives through books and complementary products. Since then, the online channel has expanded dramatically, offering customers an increased number of titles at a lower cost than traditional bookstores. More recently, Kobo has provided consumers with a new digital reading platform that offers instant accessibility, huge selection and lower costs.

The Company's strategy has been to invest directly into the high growth areas, such as online and Kobo, and to focus on advancing the core retail business through adapting physical stores, improving productivity, and driving employee engagement.

Online Development and Redesign

The redesign of the online experience includes changes in merchandising to add more gift, lifestyle and toy products, changes in the Company's approach to communicating online and enhanced employee training. To further improve the customer experience and the online supply chain, a new distribution centre equipped with a new warehouse management system dedicated to the online business was opened in fiscal 2011.

Digital Initiative

While books have been available in electronic form for many years, awareness of this format and the availability of new devices that enable eReading are growing. As Canadians begin to explore this new, electronic reading experience, the Company intends to position itself as the primary destination in Canada for eReading. Through its subsidiary Kobo, the Company provides an eReading experience to its customers, allowing them to purchase and read eBooks on an evolving selection of devices, including the Kobo eReader.

Adapting the Company's Physical Stores

To ensure physical store offerings are rich and compelling, the Company is expanding its product mix by continuing to add toy departments to superstores and by developing its own product line to further expand Indigo's gift and lifestyle offering. The Company has taken steps to establish its own product development capability in order to expand its proprietary merchandise. This initiative is part of Indigo's focus on providing customers with increasingly meaningful and enriching merchandise and is expected to improve operating margins.

Driving Productivity Improvement

The Company continually looks for innovative ways to drive costs down while improving what Indigo delivers to customers. For this reason, the Company has implemented a number of key initiatives related to improving productivity. In particular, the Company has focused on major supply chain productivity initiatives designed to reduce costs, deliver improved operating margins and improve service to customers. These initiatives include the new online distribution centre launched in fiscal 2011, and a plan to upgrade the Company's existing retail distribution facility and replace the warehouse management system in fiscal 2012.

Employee Engagement

In order to help drive employee engagement, the Company has invested in training and development and has worked to improve overall communication throughout Indigo. Management recognizes that sustaining high levels of employee engagement is a constant responsibility and, accordingly, will continue to commit resources to specific initiatives designed to make Indigo one of the best places to work. One of the Company's initiatives is a plan to launch a talent management software tool and enhanced human resources reporting tools in fiscal 2012.

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 52-week period ended April 2, 2011, the 53-week period ended April 3, 2010 and the 52-week period ended March 28, 2009.

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

(millions of dollars)	52-week period ended April 2, 2011	% Revenues	53-week period ended April 3, 2010	% Revenues
Revenues	**1,017.3**	**100.0**	968.9	100.0
Cost of sales	**604.0**	**59.4**	535.8	55.3
Cost of operations	**282.8**	**27.8**	274.9	28.4
Selling and administrative expenses	**104.3**	**10.3**	85.2	8.8
EBITDA[1]	**26.2**	**2.6**	73.0	7.5

[1] Earnings before interest, taxes, depreciation, amortization and non-controlling interest. 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)	52-week period ended April 2, 2011	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Revenues			
Superstores	667,582	670,542	634,727
Small format stores	148,702	157,418	166,225
Online (including store kiosks)	90,617	92,180	95,232
Other	110,424	48,787	44,215
	1,017,325	968,927	940,399
Net earnings	11,346	34,923	30,650
Total assets	516,180	519,842	487,506
Long-term debt (including current portion)	3,285	3,037	5,006
Working capital	103,939	106,379	87,082
Basic earnings per share	$0.46	$1.42	$1.24
Diluted earnings per share	$0.45	$1.39	$1.21

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

	52-week period ended April 2, 2011	53-week period ended April 3, 2010	52-week period ended March 28, 2009
Comparable Store Sales[1]			
Superstores	(0.3%)	0.6%	2.4%
Small format stores	(3.2%)	(2.2%)	4.3%
Stores Opened			
Superstores	1	6	4
Small format stores	–	–	1
	1	6	5
Stores Closed			
Superstores	–	–	–
Small format stores	1	5	4
	1	5	4
Number of Stores Open at Year-End			
Superstores	97	96	90
Small format stores	149	150	155
	246	246	245
Selling Square Footage at Year-End (in thousands)			
Superstores	2,235	2,217	2,110
Small format stores	410	412	415
	2,645	2,629	2,525

[1] See "Non-GAAP Financial Measures".

Revenue Increase Driven by eReader Sales Despite One Less Operating Week

Total consolidated revenues for the 52-week period ended April 2, 2011 increased $48.4 million or 5.0% to $1,017.3 million from $968.9 million for the 53-week period ended April 3, 2010. The increase was driven by sales of Kobo eReaders and eReader accessories, growth in the sales of gift, toy and paper products and the full year impact of new superstores that were opened last year. This increase was partially offset by a decline in book sales. On a normalized 52-week basis, total revenues were up 6.7% compared to the same period last year.

Comparable store sales for the fiscal year decreased 0.3% in superstores and decreased 3.2% in small format stores primarily due to lower book sales. 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. As at April 2, 2011, the Company operated one additional superstore and one fewer small format store compared to April 3, 2010.

Online sales decreased by $1.6 million or 1.7% to $90.6 million for the 52-week period ended April 2, 2011 compared to $92.2 million last year. On a normalized 52-week basis, online sales were down 0.1% compared to the same period last year. The decrease in the online channel was also due to lower book sales.

Revenues from other sources include revenues generated through loyalty card sales, gift card breakage, revenues from Calendar Club, wholesale business and Kobo. Revenues from other sources increased $61.6 million from $48.8 million last year to $110.4 million for the current year primarily as a result of Kobo eBook and eReader sales.

Revenues by channel are highlighted below:

(millions of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010	% increase	Comparable store sales % increase
Superstores	**667.6**	670.5	(0.4)	(0.3)
Small format stores	**148.7**	157.4	(5.5)	(3.2)
Online (including store kiosks)	**90.6**	92.2	(1.7)	N/A
Other	**110.4**	48.8	126.2	N/A
	1,017.3	968.9	5.0	(0.8)

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

	Superstores		Small format stores	
(millions of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Total revenues	**667.6**	670.5	**148.7**	157.4
Adjustments for stores not in both fiscal periods	**(22.0)**	(12.1)	**(6.3)**	(7.9)
Adjustment for week 53 revenues	**–**	(10.9)	**–**	(2.4)
Comparable store sales	**645.6**	647.5	**142.4**	147.1

Cost of Sales (as a Percent of Revenues) Increased 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. For the 52-week period ending April 2, 2011, cost of sales increased $68.2 million to $604.0 million. The increase was primarily driven by the cost of goods sold associated with the sale of Kobo eReaders, inventory write-downs, and higher online shipping costs resulting from the initial start up of the new online distribution centre.

As a percent of total revenues, cost of sales increased 4.1% to 59.4% for fiscal 2011, compared to 55.3% last year. The increase was driven by Kobo eReaders, which have minimal margin due to competitive pricing of other electronic reading devices, less promotional support received from book publishers compared to last year, inventory write-downs, and higher online shipping costs.

Cost of Operations (as a Percent of Revenues) Improved from Last Year

Cost of operations includes all store, online, distribution centre and Calendar Club costs. Cost of operations increased $7.9 million primarily due to an increase in labour, online, retail distribution centre and occupancy costs. Labour costs increased $3.6 million compared to last year as a result of higher minimum wage rates in most provinces and the full-year operation of additional superstores compared to last year. Online costs increased $2.2 million due to opening the new online distribution centre during fiscal 2011. Retail distribution centre costs increased by $1.7 million as higher unit volume resulted in higher labour and freight costs. Occupancy costs increased $0.8 million primarily due to the operation of additional superstores compared to last year.

As a percent of total revenues, cost of operations decreased by 0.6% to 27.8% this year. This percentage decrease was driven by the revenue increase from the sales of Kobo eReaders and eReader accessories in the store, which have minimal incremental associated operating costs.

Selling and Administrative Expenses Increased due to Expenses Related to Kobo

Selling and administrative expenses include all marketing, head office and Kobo administrative costs. These expenses increased $19.1 million compared to last year. As a percent of total revenues, selling and administrative expenses increased by 1.5% to 10.3%, compared to 8.8% of total revenues last year.

The Company recorded $24.4 million more in operating expenses related to Kobo compared to last year. In fiscal 2011, expenses related to the operation of Kobo totalled $30.4 million compared to $6.0 million last year. Kobo has experienced significant worldwide growth in its first full year of operations, resulting in an increase to operating expenses. This increase was partially offset by a reduction of $7.6 million in the accruals for the Company's bonus plan and Long-Term Performance and Retention Incentive Program. A lower payout is expected for the Company's annual bonus plan this year compared to last year, and the Long-Term Performance and Retention Incentive Program was no longer in place for the current fiscal year.

EBITDA Decreased as a Percent of Revenues

EBITDA, defined as earnings before interest, taxes, depreciation, amortization, and non-controlling interest, decreased $46.8 million to $26.2 million for the 52-week period ended April 2, 2011, compared to $73.0 million for the 53-week period ended April 3, 2010. The decrease was driven by lower EBITDA in both the Indigo core business and the Kobo business. The Indigo core business experienced a reduction in margin as the revenue growth was mainly derived from the sale of Kobo eReaders which have minimal margin. This, combined with increasing cost of operations in several areas mentioned above, led to lower EBITDA in the core business. The EBITDA loss in the Kobo business is higher because the Company spent more in operating expenses, as discussed above, and Kobo began operations late in the third quarter of last year as opposed to operating for a full year in fiscal 2011. EBITDA as a percent of revenues decreased to 2.6% this year from 7.5% last year.

Depreciation and Amortization Increased versus Last Year

Depreciation and amortization for the 52-week period ended April 2, 2011 increased by $2.0 million to $30.0 million compared to $28.0 million last year. Capital expenditures in fiscal 2011 totalled $45.3 million and included $22.6 million on store construction, renovations and equipment, $17.5 million on intangible assets (primarily application software and internal development costs) and $5.2 million on technology equipment. Of the $5.2 million expenditure in technology equipment, $2.3 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 the Company was no longer using these product designs and the Company closed one Pistachio store last year. No capital assets were written off during fiscal 2011.

Net Interest Income Recorded

The Company recognized net interest income of $0.4 million in fiscal 2011 compared to $0.1 million in fiscal 2010. The Company nets interest income received against interest expense paid on capital leases. The interest income received was higher this year due to an increase in market interest rates.

Transactions Relating to Kobo in the Current Year

As the majority shareholder of Kobo, the Company fully consolidates its results in its consolidated financial statements. The Company records a non-controlling interest to its Consolidated Statements of Earnings and Comprehensive Earnings to reflect the portion of Kobo's income or loss that is attributable to the minority shareholders of Kobo. For the 52 weeks ended April 2, 2011, the Company recorded $13.6 million, compared to $1.3 million last year, in non-controlling interest for the portion of Kobo losses attributable to the minority shareholders.

On September 8, 2010, Kobo entered into an agreement with certain of its existing shareholders (the "Investors") to provide additional capital to Kobo upon the occurrence of specified funding events. The first funding event under this agreement occurred on September 8, 2010 and Indigo purchased 2,040,816 shares for $3.6 million. The remaining Investors purchased 680,272 shares for $1.2 million. The second funding event under this agreement occurred on November 19, 2010 and Indigo purchased 2,040,816 shares for $3.6 million. The remaining Investors purchased 680,272 shares for $1.2 million. The over-allotment option was exercised on December 13, 2010 and Indigo purchased 1,224,489 shares for $2.1 million, increasing the Company's total ownership of Kobo from 57.7% to 61.4%. The remaining Investors purchased 408,163 shares for $0.7 million.

On February 22, 2011, Kobo issued 6,209,881 shares to a syndicate of investors comprised of both existing shareholders and new investors. Indigo purchased 2,589,580 common shares for $10.0 million while the rest of the syndicate members purchased a total of 3,620,301 common shares for $14.0 million. As a result of these transactions, Indigo's ownership of Kobo decreased from 61.4% to 58.3%. Under Canadian GAAP, the difference between the financing proceeds and the change in Indigo's share of Kobo's net identifiable assets is accounted for as a gain of $3.9 million for the Company.

Income Tax Expense Decreased from Last Year

The Company recognized income tax expense of $2.7 million this year compared to an income tax expense of $12.5 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 2010, Indigo purchased certain tax losses from a related company. Indigo acquired a future tax asset of $20.7 million in exchange for net cash consideration of $7.7 million. The difference of $13.0 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, a portion of the deferred credit was recognized into income, which results in a lower tax expense for Indigo in fiscal 2011.

Net Earnings Decreased in Fiscal 2011

The Company recognized net earnings of $11.3 million for the year or $0.46 net earnings per common share, compared to net earnings of $34.9 million or $1.42 net earnings per common share last year. The decrease in net earnings was primarily due to the decrease in EBITDA, partially offset by 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 2011 Revenues	**204,286**	**214,764**	**387,642**	**210,633**
Net earnings (loss)	**(5,308)**	**(1,809)**	**30,182**	**(11,719)**
Basic earnings (loss) per share	**$(0.21)**	**$(0.07)**	**$1.21**	**$(0.47)**
Diluted earnings (loss) per share	**$(0.21)**	**$(0.07)**	**$1.19**	**$(0.47)**
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

The Company saw a decline in consolidated revenues in the fourth quarter of fiscal 2011. Revenues decreased $17.6 million or 7.7%, to $210.6 million compared to $228.2 million in the same quarter last year. Online sales decreased $2.1 million or 8.8%, to $21.7 million in the fourth quarter this year from $23.8 million last year. The sales decline was mainly due to a 13-week fourth quarter period in fiscal 2011 compared to a 14-week fourth quarter period in fiscal 2010. On a normalized 13-week basis, consolidated revenues were down $2.3 million or 1.0% compared to the fourth quarter of last year. For the fourth quarter, comparable store sales decreased 6.1% in superstores and 8.3% in small format stores. The decrease was mainly due to lower book sales.

Net earnings in the fourth quarter of fiscal 2011 were a net loss of $11.7 million, compared to net earnings of $0.5 million in the same quarter last fiscal year. As previously discussed, the decrease in net earnings was largely due to higher cost of sales and one fewer operating week in fiscal 2011 compared to fiscal 2010, partially offset by lower income tax expense.

Overview of Consolidated Balance Sheets

Total Assets

As at April 2, 2011, total assets were $3.7 million lower than total assets at April 3, 2010. The reduction in assets was primarily due to decreases in the Company's cash and cash equivalents (including restricted cash) and future tax assets, offset by increases in the Company's inventory, property, plant and equipment and intangible assets. Cash and cash equivalents decreased $20.5 million primarily due to increased investment in working capital, the purchase of capital assets and the payment of dividends. Future tax assets decreased by $11.3 million compared to last year. The Company utilized tax loss carry-forwards to reduce its taxable income, resulting in a reduction in future tax assets. In addition, the Company did not purchase any tax losses from a related company in this fiscal year.

The Company's inventory position increased $8.3 million mainly due to the opening of a new superstore and the expansion of the gift, paper and toy businesses. Property, plant and equipment increased by $8.3 million primarily due to expenditures for store construction, renovations and equipment and the opening of the online distribution centre during the year. Intangible assets increased by $6.8 million primarily due to expenditures for technology-related projects, including development costs at Kobo.

Total Liabilities

As at April 2, 2011, total liabilities were $7.3 million less than total liabilities at April 3, 2010. The decrease in liabilities was primarily due to a $6.9 million decrease in current and long-term accounts payable and accrued liabilities due to lower bonus and incentive program accruals, as previously discussed. Deferred revenue also decreased $1.4 million as a result of a decline in the Company's fee-based loyalty card program in advance of the launch of the new Indigo Plum Loyalty Program.

Non-Controlling Interest

The Company fully consolidates the results of Kobo in its consolidated financial statements. For the 52-week period ended April 2, 2011, the Company recorded $6.3 million in non-controlling interest on its consolidated balance sheet compared to $6.8 million last year. The $6.3 million reflects the 41.7% of Kobo owned by other investors, compared to 42.3% ownership by other investors last year.

Shareholders' Equity

Shareholders' equity at April 2, 2011 increased $4.2 million compared to April 3, 2010. The increase in shareholders' equity was primarily due to net earnings of $11.3 million in fiscal 2011. It was partially offset by (i) a $0.4 million decrease due to the repurchase of common shares under the normal course issuer bid; and (ii) $10.9 million of dividend payments. Contributed surplus increased $0.4 million due to the expensing of employee stock options and Director's deferred share units.

Working Capital and Leverage

The Company reported working capital of $103.9 million as at April 2, 2011, compared to $106.4 million at the end of fiscal 2010. Working capital decreased because the decrease in current assets exceeded the decrease in current liabilities. Current assets decreased by $8.7 million primarily due to a decrease in cash and cash equivalents, including restricted cash, partially offset by increases in inventories and accounts receivable. The reduction in current liabilities was $6.2 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 to 0.9:1 at the end of fiscal 2011 compared to 1.0:1 last year.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents decreased $20.5 million during fiscal 2011 compared to an increase of $11.7 million last year. The decrease was driven by cash flows used in investing activities of $43.2 million, offset by cash flows from operating activities of $18.4 million, cash flows from financing activities of $5.4 million, and the effect of foreign currency exchange rate changes on cash and cash equivalents of $1.1 million.

Cash Flows from Operating Activities

The Company generated positive cash flows from operating activities of $18.4 million during fiscal 2011. This was a decrease of $43.8 million over the same period last year, when cash flows generated from operating activities were $62.2 million. Fiscal 2011 cash flows from operating activities were primarily generated by net earnings of $11.3 million and growth in income taxes payable of $1.6 million. Last year, cash flows from operating activities were primarily generated by net earnings of $34.9 million, reduction in accounts receivable of $1.4 million and growth in deferred revenue of $1.3 million.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities were $43.2 million in fiscal 2011 compared to $48.9 million in fiscal 2010. In fiscal 2011, total cash spent on capital projects was $43.0 million compared to $41.1 million spent in fiscal 2010 as outlined below:

(millions of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Store construction, renovations and equipment	22.6	21.2
Intangible assets (primarily application software and internal development costs)	17.5	16.2
Technology equipment	2.9	3.7
	43.0	41.1

The Company opened one new superstore and expanded the toy section at several superstores during fiscal 2011. Store renovations are typically done upon lease renewal and at selected points throughout a lease term. The amounts spent in fiscal 2011 and fiscal 2010 are reflective of the average term of leases in the Company's portfolio and the required dates for store renovations.

The Company also paid $7.7 million for the acquisition of non-capital tax losses last year. There was no acquisition of non-capital tax losses in the current year.

Cash Flows From Financing Activities

Net cash flows from financing activities were $5.4 million in fiscal 2011 compared to a use of $0.4 million in fiscal 2010. The increase in cash flows from financing activities was driven by $15.8 million received from third-party Kobo investors in fiscal 2011 compared to $11.0 million received last year. This cash receipt was offset by $10.9 million of dividends paid during fiscal 2011 and a $2.1 million repayment of long-term debt. The Company paid $9.8 million in dividends and repaid $3.0 million of long-term debt in fiscal 2010.

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 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, long-term debt and an operating line of credit. Indigo invests its cash in highly liquid assets. The Company does not invest in asset-backed commercial paper.

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	1.3	1.6	0.4	–	3.3
Operating leases	64.0	99.2	48.5	35.8	247.5
Total obligations	65.3	100.8	48.9	35.8	250.8

Based on the Company's liquidity position and cash flow forecast, management expects cash flow generated from operations and cash from the Company's operating line of credit to be sufficient to meet its working capital needs, debt service requirements and dividend payments for fiscal 2012. 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. The Company has two reporting units: Indigo and Kobo. The Kobo reporting unit includes all Kobo Inc. operations, while the Indigo reporting unit includes all other operations of the consolidated Company. Goodwill has been allocated between both reporting units. The estimated fair value of the Indigo reporting unit is based on a discounted cash flow analysis while the estimated fair value of the Kobo reporting unit is based on Kobo's market capitalization. Changes affecting Indigo's discounted cash flow assumptions, such as future earnings trends, capital expenditures and discount rate, may result in future impairment of goodwill. The Company completed an assessment as at April 2, 2011 to compare the carrying value of goodwill to the Company's estimated fair value 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 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 2011, the Company did not have any interest rate or foreign currency derivative contracts outstanding.

Accounting Standards Adopted in Fiscal 2011

Multiple Deliverable Revenue Arrangements ("EIC-175")

In December 2009, the CICA issued a new abstract concerning multiple deliverable revenue arrangements, EIC-175, which amended EIC-142, "Revenue Arrangements with Multiple Deliverables" ("EIC-142"). The objective of issuing this abstract is to harmonize EIC-142 with amendments made to U.S. generally accepted accounting principles. These amendments require a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. The amendments also change the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. The Company chose to early-adopt EIC-175 prospectively for the 52-week period beginning April 4, 2010.

New Accounting Pronouncements

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

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed its plan to converge with International Financial Reporting Standards ("IFRS"). The AcSB requires that all public companies adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will prepare its first IFRS financial statements in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting," for the 13-week period ended July 2, 2011. Currently, the Company continues to report its fiscal 2011 and comparative fiscal 2010 results in accordance with Canadian GAAP but going forward, the Company will report its fiscal 2012 and comparative fiscal 2011 results in accordance with IFRS.

The Company's IFRS transition plan remains on schedule. Indigo has completed preparation of its opening balance sheet in accordance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards," as at April 4, 2010 ("transition date"). The opening balance sheet has been reviewed by the Audit Committee and provided to the Company's auditors. The Company has also drafted its preliminary comparative interim financial statements and draft note disclosures under IFRS for the first three quarters of fiscal 2011. Quarterly comparative financial statements and draft note disclosures will be presented to the Audit Committee and the Company's auditors each quarter, in conjunction with the preparation of Indigo's fiscal 2012 quarterly reports.

The Company's analyses of changes and policy decisions have been made based on its expectations regarding the accounting standards that are effective as at April 3, 2011 ("conversion date"). IFRS accounting policies used in preparation of the opening balance sheet and comparative fiscal 2011 IFRS balances have been approved by senior management and the Audit Committee. However, accounting standards and interpretations are subject to change and may impact the Company's initial

IFRS reporting in fiscal 2012. The Company will, therefore, continue to actively monitor developments in the standards as proposed and issued by the International Accounting Standards Board ("IASB") as well as all applicable regulatory standards.

The following section presents key areas where changes resulting from IFRS are expected to impact the Company. The list and related 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 for transition.

Accounting Policy Changes

Individual amounts disclosed which were calculated as part of the Company's opening balance sheet preparation have been reviewed by the Company's Audit Committee and provided to our auditors. Disclosures are on a pre-tax basis with the tax impact of all opening balance sheet changes discussed as a standalone item.

Framework for the Preparation and Presentation of Financial Statements (the "Framework")

Differences from existing Canadian GAAP: 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, 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.

Expected transition impact: The Company will reclassify the deferred credit of $13.0 million as a decrease to liabilities and an increase to opening retained earnings.

Expected post-transition impact: Should the Company complete a similar transaction in the future, the difference between net cash consideration paid and the future tax asset recorded will be recorded directly into equity.

Impairment of Capital Assets ("IAS 36")

Differences from existing Canadian GAAP:

Canadian GAAP	IFRS
• 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.	• One-step approach in both testing for and measurement of impairment, with asset carrying values compared directly with value in use.
• Impairment testing for Indigo was performed at a Company-wide level.	• Impairment testing for Indigo will be performed at the store level.
• Reversal of impairment losses is prohibited.	• Except for goodwill, previously recognized impairment losses should be reversed where circumstances have changed.

Expected transition date impact: The Company has revised its impairment testing model to comply with the requirements of IAS 36 and the changes made resulted in the recognition of an impairment of $2.7 million of capital assets, which correspondingly decreased opening retained earnings. Indigo did not identify any reversals of previously recorded impairment losses.

Expected post-transition impact: The change in testing methodology may result in increased volatility of net income due to an increased likelihood of asset impairment, the possibility of impairment loss reversals and the corresponding effects on depreciation and amortization.

Share-based Payments ("IFRS 2")

Differences from existing Canadian GAAP:

Canadian GAAP	IFRS
• The fair value of a share-based payment with graded vesting is recognized on a straight-line basis over the vesting period.	• Each tranche of a share-based payment is considered a separate grant with a different vesting date and fair value, and each tranche is accounted for separately using graded vesting.
• Award forfeitures are recognized as they occur.	• Forfeitures must be estimated and recognized in the current period, with revisions for actual forfeitures in subsequent periods.
• Cash-settled share-based compensation awards are measured by reference to market value of the related shares.	• Fair value of cash-settled share-based compensation awards is measured using a valuation model.

Expected transition date impact: Changes made to the calculation of Indigo's share-based payment expense resulted in the recognition of $1.0 million in additional expense under IFRS, which decreased opening retained earnings and increased contributed surplus and liabilities.

Expected post-transition impact: Under IFRS, both the method of expensing share-based payments and valuation of the underlying options and related expenses are different than under Canadian GAAP. The post-transition impact of this difference cannot be determined as valuation of share-based payments will occur upon grant date.

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

Differences from existing Canadian GAAP: 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.

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. IFRS also requires separate presentation of provisions.

Expected transition impact: To conform with IFRS presentation requirements, $0.2 million was reclassified between accounts payable and accrued liabilities and provisions as this amount met IFRS criteria for recognition as a provision. The Company has reviewed its obligations at transition date, including a full review of store leases, and did not recognize any new provisions.

Expected post-transition impact: The Company may be required to recognize obligations under IFRS that would not have been recognized under Canadian GAAP, which would result in an increase to liabilities and a reduction to net earnings.

Presentation Differences

Deferred income tax: IFRS does not separately present future tax assets as current and non-current. As such, $6.6 million was reclassified from current future tax assets to non-current future tax assets on the Company's opening balance sheet. This presentation difference will continue post-transition. The Company has not identified any other differences in the recognition and measurement of deferred income taxes under IFRS.

Unredeemed gift card liability: IFRS requires separate presentation of material liabilities. As such, $37.8 million was reclassified from current accounts payable and accrued liabilities to unredeemed gift card liability. This presentation difference will continue post-transition.

Other Adjustments

Non-controlling interest: The Company recorded an increase of $0.1 million in non-controlling interest and a corresponding decrease to opening retained earnings. Non-controlling interest relates to Kobo, which is expected to convert from Canadian GAAP to full IFRS using the same transition date and accounting policies as Indigo. The adjustment to the Company's non-controlling interest balance was required as a result of expected changes in Kobo's opening retained earnings. This adjustment will continue to impact the Company post-transition.

Tax Impact of IFRS Adjustments

The Company has determined the deferred tax impact of each of the above accounting changes. Per the requirements of IFRS 1, "First-Time Adoption of International Financial Reporting Standards," the deferred tax adjustment will be recorded in opening retained earnings upon transition to IFRS. As such, Indigo has recorded a $0.7 million increase to future tax assets and to opening retained earnings. A similar calculation will be performed for each of the Company's interim reports during the fiscal 2012 transition year.

Consolidated and Separate Financial Statements ("IAS 27")

In the fourth quarter of fiscal 2011, Kobo issued shares to both Indigo and external investors. This round of financing resulted in a reduction to Indigo's percentage ownership of Kobo, but Indigo continues to control Kobo. Under IAS 27, changes in a parent's ownership interest in a subsidiary which do not result in a loss of control are accounted for as equity transactions.

Under Canadian GAAP, such a transaction results in the recognition of income items by the parent. The difference between the financing proceeds and the change in Indigo's share of Kobo's net identifiable assets is accounted for as a gain.

This accounting difference does not have an impact on the opening balance sheet but will result in a reduction of $3.9 million to adjusted comparative fourth quarter fiscal 2011 earnings under IFRS.

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 had no impact on the opening balance sheet but going forward 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 began capitalizing 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.

This change in accounting policy had no impact on the opening balance sheet but going forward may result in increases to property, plant and equipment and to earnings.

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 IFRS financial statements. These optional exemptions were applied in preparation of the Company's opening balance sheet 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 is applying 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 is applying 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 has elected 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 will continue to apply the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS.

The information above is provided to allow investors and others to obtain a better understanding of the Company's IFRS changeover plan and the resulting possible effects on, for example, the Company's 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 the Company's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

The following unaudited opening balance sheet shows the expected impacts of the above-noted differences between Canadian GAAP and IFRS at the transition date.

Reconciliation of Consolidated Balance Sheet as at April 4, 2010

(thousands of Canadian dollars)

Canadian GAAP accounts	Canadian GAAP balance	Notes	IFRS adjustments	IFRS reclassifications	IFRS balance	IFRS accounts
ASSETS						**ASSETS**
Current						**Current**
Cash and cash equivalents	103,489		–	–	103,489	Cash and cash equivalents
Restricted cash	409		–	–	409	Restricted cash
Accounts receivable	8,455		–	–	8,455	Accounts receivable
Inventories	224,406		–	–	224,406	Inventories
Income taxes recoverable	899		–	–	899	Income taxes recoverable
Prepaid expenses	6,771		–	–	6,771	Prepaid expenses
Future tax assets	6,615	1	–	(6,615)	–	
Total current assets	351,044		–	(6,615)	344,429	**Total current assets**
Property, plant and equipment	77,478	2	(2,678)	–	74,800	Property, plant and equipment
Future tax assets	40,894	1,6	705	6,615	48,214	Future tax assets
Intangible assets	23,794	2	(1)	–	23,793	Intangible assets
Goodwill	26,632		–	–	26,632	Goodwill
Total assets	519,842		(1,974)	–	517,868	**Total assets**
LIABILITIES AND SHAREHOLDERS' EQUITY						**LIABILITIES AND EQUITY**
Current						**Current**
Accounts payable and accrued liabilities	229,920	3,4,5	(12,863)	(37,994)	179,063	Accounts payable and accrued liabilities
Deferred revenue	12,882		–	–	12,882	Deferred revenue
Current portion of long-term debt	1,863		–	–	1,863	Current portion of long-term debt
		5	–	37,816	37,816	Unredeemed gift card liability
		5	–	178	178	Provisions
Total current liabilities	244,665		(12,863)	–	231,802	**Total current liabilities**
Long-term accrued liabilities	8,203		–	–	8,203	Long-term accrued liabilities
Long-term debt	1,174		–	–	1,174	Long-term debt
Total liabilities	254,042		(12,863)	–	241,179	**Total liabilities**
Shareholders' equity						
Share capital	198,635		–	–	198,635	Share capital
Contributed surplus	4,670	4	963	–	5,633	Contributed surplus
Retained earnings	55,664	2,3,4	9,832	–	65,496	Retained earnings
Total shareholders' equity	258,969		10,795	–	269,764	**Total equity attributable to shareholders of the Company**
Non-controlling interest	6,831	1	94	–	6,925	Non-controlling interest
					276,689	**Total equity**
Total liabilities and shareholders' equity	519,842		(1,974)	–	517,868	**Total liabilities and equity**

Notes

1 See section entitled "Presentation Differences."

2 See section entitled "Impairment of Capital Assets."

3 See section entitled "Framework for the Preparation and Presentation of Financial Statements."

4 See section entitled "Share-based Payments."

5 See section entitled "Provisions, Contingent Liabilities and Contingent Assets."

6 See section entitled "Tax Impact of IFRS Adjustments."

Other IFRS Considerations

As part of the IFRS conversion project, Indigo assessed whether changes related to IFRS reporting will result in a material change to internal controls over financial reporting or to disclosure controls and procedures. To date, the Company has not identified any material changes to internal controls or to disclosure controls and procedures resulting from IFRS transition.

The Company is also reviewing key measures such as EBITDA, comparative store sales and performance-based compensation to determine whether IFRS will have a material impact. To date, the Company has not identified any significant impacts to key measures. The Company has minimal borrowing activities and there are no covenants which would be affected by the IFRS transition.

Training regarding anticipated changes resulting from IFRS implementation has been provided to key employees and the Audit Committee. Throughout the conversion process, management has provided updates to the Audit Committee on transitional and quarterly IFRS adjustments, implications of IFRS standards to the business and related impacts on the Company's financial reporting.

IFRS implementation is not expected to have a material impact on reported cash flows. To date, the only direct impacts to the cash flow statement which have been identified through the IFRS conversion project are minor presentation differences.

The IASB has a number of ongoing projects to revise current standards which may be finalized prior to issuance of the Company's first financial statements in accordance with IFRS. The Company continues to monitor the status of these projects to assess their impacts on financial reporting.

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 continue to 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 maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. The Company has two streams of accounts receivable. Indigo's customer base primarily consists of retail customers who pay by cash or credit card, while a significant percentage of Kobo's customer base are corporate clients who pay on account. Kobo sells eBook readers to corporate clients and performs back-end operations for corporate eBook stores. Cash and credit card payments have minimal credit risk and the limited number of corporate receivables are closely monitored.

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 have resulted in sales to customers worldwide in a number of different currencies. 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 3.7 years and 2.8 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 2, 2011 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 2, 2011.

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 Organizations 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, for both the Indigo and Kobo reporting units, were effective as at April 2, 2011.

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 January 2, 2011 and ended on April 2, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Kobo implemented a formalized set of information technology and period close internal control processes in advance of year end. These new internal controls mitigate the risk of error in financial reporting for both Kobo and the Company.

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 52-week fiscal year in 2011 compared to the 53-week fiscal year ended April 3, 2010. 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 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)	**52-week period ended April 2, 2011**	53-week period ended April 3, 2010
EBITDA	**26.2**	73.0
Depreciation of property, plant and equipment	**19.3**	19.7
Amortization of intangible assets	**10.7**	8.3
Write-off of capital assets	**0.0**	1.1
Dilution gain on reduction of ownership in subsidiary	**(3.9)**	(3.0)
Deemed disposition of goodwill	**0.0**	0.9
Interest on long-term debt and financing charges	**0.2**	0.2
Interest income on cash and cash equivalents	**(0.6)**	(0.3)
Earnings before income taxes and non-controlling interest	**0.5**	46.1

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

(millions of dollars)	**52-week period ended April 2, 2011**	53-week period ended April 3, 2010	Week 53 revenues	53-week period ended April 3, 2010 (normalized)
Revenues				
Superstores	**667.6**	670.5	10.9	659.6
Small format stores	**148.7**	157.4	2.4	155.0
Online (including store kiosks)	**90.6**	92.2	1.5	90.7
Other	**110.4**	48.8	0.5	48.3
	1,017.3	968.9	15.3	953.6

Independent Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

We have audited the accompanying consolidated financial statements of Indigo Books & Music Inc., which comprise the consolidated balance sheets as at April 2, 2011 and April 3, 2010, and the consolidated statements of earnings, comprehensive earnings and retained earnings and cash flows, for the 52-week and 53-week periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Indigo Books & Music Inc. as at April 2, 2011 and April 3, 2010, and the results of its operations and its cash flows for the 52-week and 53-week periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
May 31, 2011

Consolidated Balance Sheets

(thousands of dollars)	As at April 2, 2011	As at April 3, 2010
ASSETS		
Current		
Cash and cash equivalents	83,021	103,489
Restricted cash (note 14)	640	409
Accounts receivable	12,684	8,455
Inventories (note 10)	232,694	224,406
Income taxes recoverable	–	899
Prepaid expenses	7,941	6,771
Future tax assets (note 7)	5,393	6,615
Total current assets	342,373	351,044
Property, plant and equipment (notes 4 and 6)	85,736	77,478
Intangible assets (notes 5 and 6)	30,620	23,794
Future tax assets (note 7)	30,819	40,894
Goodwill (note 5)	26,632	26,632
Total assets	516,180	519,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (notes 11, 13 and 18)	224,959	229,920
Deferred revenue	11,528	12,882
Income taxes payable	657	–
Current portion of long-term debt (notes 13 and 19)	1,290	1,863
Total current liabilities	238,434	244,665
Long-term accrued liabilities (note 13)	6,284	8,203
Long-term debt (notes 13 and 19)	1,995	1,174
Total liabilities	246,713	254,042
Non-controlling interest (notes 17 and 18)	6,347	6,831
Shareholders' equity		
Share capital (note 8)	202,196	198,635
Contributed surplus (note 9)	5,039	4,670
Retained earnings	55,885	55,664
Total shareholders' equity	263,120	258,969
Total liabilities and shareholders' equity	516,180	519,842

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)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Revenues	1,017,325	968,927
Cost of sales, operations, selling and administration (notes 10 and 18)	991,155	895,930
	26,170	72,997
Depreciation of property, plant and equipment	19,311	19,682
Amortization of intangible assets	10,679	8,326
Write-off of capital assets (note 6)	–	1,086
	29,990	29,094
Earnings (loss) before the undernoted items	(3,820)	43,903
Interest on long-term debt and financing charges	212	214
Interest income on cash and cash equivalents	(567)	(333)
Dilution gain on reduction of ownership in subsidiary (notes 17 and 18)	(3,915)	(3,019)
Deemed disposition of goodwill (note 17)	–	891
Earnings before income taxes and non-controlling interest	450	46,150
Income tax expense (note 7)		
Current	1,237	1,481
Future	1,445	11,056
	2,682	12,537
Earnings (loss) before non-controlling interest	(2,232)	33,613
Non-controlling interest (notes 17 and 18)	(13,578)	(1,310)
Net earnings and comprehensive earnings for the period	11,346	34,923
Net earnings per common share (note 8)		
Basic	$0.46	$1.42
Diluted	$0.45	$1.39

See accompanying notes

Consolidated Statements of Retained Earnings

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Retained earnings, beginning of period	**55,664**	30,734
Net earnings for the period	**11,346**	34,923
Shares repurchase excess (note 8)	**(177)**	(178)
Dividends paid	**(10,948)**	(9,815)
Retained earnings, end of period	**55,885**	55,664

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	11,346	34,923
Add (deduct) items not affecting cash		
Depreciation of property, plant and equipment	19,311	19,682
Amortization of intangible assets	10,679	8,326
Stock-based compensation (note 9)	583	1,130
Directors' stock-based compensation (note 9)	554	378
Future tax assets (note 7)	11,297	2,842
Loss on disposal of capital assets	217	290
Write-off of capital assets (note 6)	–	1,086
Non-controlling interest (notes 17 and 18)	(13,578)	(1,310)
Dilution gain on reduction of ownership in subsidiary (notes 17 and 18)	(3,915)	(3,019)
Deemed disposal of goodwill (note 17)	–	891
Other	2,312	1,387
Net change in non-cash working capital balances related to operations		
Accounts receivable	(4,229)	1,435
Inventories (note 10)	(8,288)	(2,639)
Prepaid expenses	(1,170)	(1,653)
Income taxes payable (recoverable)	1,556	(1,243)
Deferred revenue	(1,354)	1,270
Accounts payable and accrued liabilities	(6,880)	(1,531)
Cash flows from operating activities	18,441	62,245
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted cash	(231)	(41)
Purchase of property, plant and equipment	(25,465)	(24,927)
Addition of intangible assets	(17,505)	(16,231)
Acquistion of non-capital tax losses (note 18)	–	(7,748)
Cash flows used in investing activities	(43,201)	(48,947)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(2,073)	(3,031)
Proceeds from share issuances (notes 8 and 9)	3,003	1,909
Repurchase of common shares (note 8)	(387)	(446)
Issuance of equity securities by subsidiary to non-controlling interest (notes 17 and 18)	15,790	11,000
Dividends paid	(10,948)	(9,815)
Cash flows from (used in) financing activities	5,385	(383)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,093)	(1,227)
Net increase (decrease) in cash and cash equivalents during the period	(20,468)	11,688
Cash and cash equivalents, beginning of period	103,489	91,801
Cash and cash equivalents, end of period	83,021	103,489

See accompanying notes

Notes to Consolidated Financial Statements

April 2, 2011

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 97 superstores (2010 – 96) under the *Chapters*, *Indigo* and *World's Biggest Bookstore* names, as well as 149 small format stores (2010 – 150) under the banners *Coles*, *Indigo*, *Indigospirit*, *SmithBooks* and *The Book Company* and one new concept store (2010 – one) under the banner *Pistachio*. The Company operates *www.chapters.indigo.ca*, an e-commerce retail destination, which sells books, videos, DVDs, music and toys. The Company also operates seasonal kiosks and year-round stores in shopping malls across Canada through its Calendar Club of Canada Limited Partnership.

In February 2009, Indigo launched Shortcovers (*www.shortcovers.com*), a new digital destination which offered online and mobile service that provided instant access to books. In December 2009, Indigo transferred the net assets of Shortcovers into a new company, Kobo Inc. ("Kobo"). The Shortcovers website has been renamed to *www.kobo.com* and Kobo provides instant access to books, newspapers, magazines and other digital content. Kobo has launched localized instances of *www.kobo.com* in several countries and offers its download service to users worldwide. Kobo also develops eReader devices which are sold through wholesale and retail channels. As at April 2, 2011, Indigo owned 58.3% of Kobo's outstanding common shares.

The Company currently meets the quantitative threshold for disclosure of two reportable operating segments: Indigo and Kobo. The Kobo reportable segment is composed of all Kobo Inc. operations while the Indigo reportable segment is composed of all other operations of the consolidated Company.

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. When the Company does not own all of the equity in a subsidiary, the non-controlling interest is disclosed as a separate line item in the consolidated balance sheets and the earnings (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. The most significant assumptions made by management in the preparation of the financial statements are breakage of gift cards, sales return provision and the valuation and impairment assessment for various assets including inventory, property plant and equipment, current and future income taxes, and goodwill.

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.

Restricted cash

Cash is considered to be restricted when it is subject to contingent rights of a third-party customer, vendor or government agency.

Inventories

Inventories are valued at the lower of cost, determined on a moving average cost basis, and market, being net realizable value. Costs include all direct and reasonable expenditures that are incurred in bringing inventories to their present location and condition. Vendor rebates are recorded as a reduction in the price of the vendor's products and corresponding inventories are 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, maintenance contracts and insurance. Store supplies are expensed as they are being used and other costs are amortized over the term of the contract. Prepaid expenses also include deposits for inventory for which title has not yet passed to the Company.

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 for which cash flow information is available. 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, up to a maximum of 10 years.

Intangible assets

The Company has two types of intangible assets. Intangible assets which are subject to amortization are recorded at cost and amortized over their estimated useful lives on a straight-line basis. Intangible assets with an indefinite useful life are not amortized until their lives are determined to be no longer indefinite. Intangible asset amortization periods are as follows:

Computer application software	3 – 5 years
Development costs	2 – 3 years
Domain name	Indefinite useful life – not amortized

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

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

Goodwill

Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it may be impaired. The Company has elected to perform its annual impairment test as at year end. Goodwill impairment is determined using a two-step process.

The first step of the process is to compare the fair value of a reporting unit with its carrying amount, including goodwill. In performing the first step, the Company determines the fair value of a reporting unit by using various valuation techniques. Primary methods employed are a discounted cash flow (“DCF”) analysis and a market-based approach. Determining fair value requires the exercise of significant judgments, including judgments about appropriate discount rates, perpetual growth rates, relevant comparable company earnings multiples and the amount and timing of expected future cash flows. The cash flows employed in the DCF analysis are based on the Company’s budgets and business plans, and various growth rates have been assumed for years beyond the forecast period. Discount rate assumptions are based on an assessment of the risk inherent in the future cash flows of the respective reporting units. In assessing the reasonableness of its determined fair values, the Company evaluates its results against other value indicators such as research analyst estimates and values observed in private market transactions. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is required to be performed to measure the amount of impairment loss, if any.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. In other words, the estimated fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

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 $5.5 million in gift card breakage in fiscal 2011 (2010 – $4.7 million).

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. Deferred revenue is also generated by deposits made to Kobo from other retailers for eReader purchases. Deferred eReader revenue is recorded as revenue when the substantial risks and rewards of ownership pass to the other retailers.

Deferred financing fees

Financing fees relate to the Company's line of credit and are amortized on a straight-line basis, which approximates the effective yield method, over the term of the respective indebtedness. The Company's long-term debt is recorded net of these fees.

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. Return allowances are estimated using historical experience.

Revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if the Company does not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables.

Kobo sales of eReader devices are considered to include multiple deliverables consisting of the device, software updates and telephone support. Software updates are similar to updates that are provided for free to users of the Kobo eReading application software. As such, software updates have a nil estimated selling price. Telephone support is primarily used shortly after a device is purchased and, due to the short timeframe between the device purchase and telephone support, revenue related to telephone support is recognized at the same time as the device sale.

Indigo Plum Loyalty Program

The Indigo Plum Loyalty Card program (the "Plum Program") allows members to earn points on their purchases in the Company's superstores, small format stores and online at *www.chapters.indigo.ca*. Members can then redeem points for discounts on superstore and small format store merchandise at the time of a future purchase transaction.

When a Plum Program member purchases merchandise, the Company will allocate the payment received between the merchandise and the points. The Company will allocate the payment based on the residual method, where the amount allocated to the merchandise is the total payment less the fair value of the points. The portion of revenue attributed to the merchandise will be recognized in accordance with the revenue recognition policy previously discussed. Revenue attributed to the points will be recorded as deferred revenue and recognized when points are redeemed.

The fair value of the points is calculated by multiplying the number of points issued by the estimated cost per point. The estimated cost per point is determined based on many factors, including the expected future redemption patterns and associated costs. On an ongoing basis, the Company monitors trends in redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed, and adjusts the estimated cost per point based upon expected future activity. To the extent that estimates differ from actual experience, the Plum Program costs could be higher or lower.

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, up to a maximum of 10 years.

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 2, 2011 and April 3, 2010, 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 financial 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 financial 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 financial 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.

All financial instruments measured at fair value are 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 financial 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.

Cash and cash equivalents are the only financial instrument which Indigo measures at fair value. As at April 2, 2011, 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 2, 2011.

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 financial 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 2011 or fiscal 2010.

3. CHANGES IN ACCOUNTING POLICIES

Multiple deliverable revenue arrangements ("EIC-175")

In December 2009, the CICA issued a new abstract concerning multiple deliverable revenue arrangements, EIC-175, which amended EIC-142, "Revenue Arrangements with Multiple Deliverables" ("EIC-142"). The objective of issuing this abstract was to harmonize EIC-142 with amendments made to U.S. generally accepted accounting principles. These amendments require a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. The amendments also change the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. The Company chose to early-adopt EIC-175 prospectively for the 52-week period beginning April 4, 2010.

New accounting pronouncements

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Starting in the first quarter of fiscal 2012, the Company will provide unaudited consolidated interim financial statements in accordance with IFRS, including comparative fiscal 2011 figures. The Company's first annual IFRS financial statements will be for the year ending March 31, 2012 and will include the comparative period of fiscal 2011, adjusted for IFRS.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	April 2, 2011		April 3, 2010	
(thousands of dollars)	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Furniture, fixtures and equipment	59,007	23,563	57,061	26,107
Computer equipment	18,335	8,443	17,825	6,739
Leasehold improvements	56,005	19,121	47,022	15,221
Equipment under capital lease	6,555	3,039	14,023	10,386
	139,902	54,166	135,931	58,453
Less accumulated depreciation	54,166		58,453	
Net book value	85,736		77,478	

As at April 2, 2011, the Company has $0.2 million of leasehold improvements (2010 – $0.4 million) that are not being depreciated because the assets are still under construction. The fiscal 2011 depreciation expense associated with capital leases was $2.4 million (2010 – $3.4 million).

5. GOODWILL AND INTANGIBLE ASSETS

As at April 2, 2011, the Company has $26.6 million (2010 – $26.6 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 goodwill impairments identified as a result of the Company's annual goodwill impairment testing in fiscal 2011 or fiscal 2010.

Intangible assets consist of the following:

	April 2, 2011		April 3, 2010	
(thousands of dollars)	Cost	Accumulated amortization	Cost	Accumulated amortization
Computer application software	32,093	10,727	25,187	8,208
Development costs	15,016	6,065	11,706	4,891
Domain name	303	–	–	–
	47,412	16,792	36,893	13,099
Less accumulated amortization	16,792		13,099	
Net book value	30,620		23,794	

6. 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. These assets were written off because the Company was no longer using these product designs and the Company closed one Pistachio store during the year. There was no such write-off in fiscal 2011.

7. 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 2, 2011	April 3, 2010
Current future tax assets		
Reserves and allowances	5,393	6,615
Net current future tax assets	5,393	6,615

(thousands of dollars)	April 2, 2011	April 3, 2010
Non-current future tax assets		
Tax loss carryforwards	12,786	21,711
Corporate minimum tax	1,292	–
Book amortization in excess of cumulative eligible capital deduction	303	321
Book amortization in excess of capital cost allowance	25,193	19,537
Share issue costs	258	–
Non-current future tax assets before valuation allowance	39,832	41,569
Valuation allowance	(9,013)	(675)
Net non-current future tax assets	30,819	40,894

Significant components of income tax expense are as follows:

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Current income tax expense	1,237	1,481
Future income tax expense (benefit) relating to origination and reversal of temporary differences	(7,917)	4,742
Increase in valuation allowance	8,338	675
Reversal of deferred credit	(9,853)	(4,388)
Future income tax expense relating to utilization of loss carryforwards	8,579	8,199
Adjustment to future tax assets resulting from reduction in substantively enacted tax rates	–	1,827
Change in tax rates due to change in expected pattern of reversal	2,296	–
Other, net	2	1
Total income tax expense	2,682	12,537

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

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Tax at combined federal and provincial tax rates (2011: 29.73%, 2010: 31.58%)	134	14,574
Tax effect of expenses not deductible for income tax purposes	575	188
Increase in valuation allowance	8,338	675
Reversal of deferred credit	(9,853)	(4,388)
Rate reduction resulting from lower tax rates in subsidiaries	1,573	234
Adjustment to future tax assets resulting from reduction in substantively enacted tax rates	–	1,827
Change in tax rates due to change in expected pattern of reversal	2,296	–
Other, net	(382)	(574)
	2,682	12,537

As at April 2, 2011, the Company has combined non-capital loss carryforwards of approximately $49.5 million for income tax purposes that expire as follows if not utilized:

(thousands of dollars)	
2030	20,788
2031	28,683
	49,471

8. SHARE CAPITAL

Share capital consists of the following:

Authorized

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

Unlimited common shares, voting

	52-week period ended April 2, 2011		53-week period ended April 3, 2010	
	Number of shares	Amount $ (thousands)	Number of shares	Amount $ (thousands)
Balance, beginning of period	24,742,915	198,635	24,526,272	196,471
Issued during the period				
Directors' deferred stock units converted	4,283	60	5,000	70
Options exercised	419,442	3,711	245,156	2,362
Repurchase of common shares	(26,100)	(210)	(33,513)	(268)
Balance, end of period	25,140,540	202,196	24,742,915	198,635

During fiscal 2011, the Company issued 4,283 common shares (2010 – 5,000 common shares) in exchange for Directors' deferred share units.

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 was allowed to purchase up to 1,227,229 of its common shares, representing approximately 5% of its total outstanding common shares. Daily purchases were limited to 2,571 common shares, other than block purchase exemptions. During fiscal 2011, the Company repurchased 26,100 common shares (2010 – 33,513 common shares) at an average price of $14.79 per share (2010 – $13.32 per share) for a total cash consideration of $0.4 million (2010 – $0.4 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 (2010 – $0.2 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 share 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)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Weighted average number of common shares outstanding, basic	24,874	24,550
Effect of dilutive securities		
– Stock options	292	365
– Deferred stock units	222	192
Weighted average number of common shares outstanding, diluted	25,388	25,107

9. 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 2,264,054. 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 2011 was $1.7 million (2010 – $2.3 million). The weighted-average fair value of options issued in fiscal 2011 was $3.31 per option (2010 – $4.16 per option).

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

	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Risk-free interest rate	2.2%	2.2%
Expected volatility	32.1%	42.0%
Expected time until exercise	4.3 years	5.9 years
Expected dividend yield	2.9%	3.1%

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

	April 2, 2011		April 3, 2010	
	Number \#	Weighted average exercise price $	Number \#	Weighted average exercise price $
Outstanding options, beginning of period	1,827,832	12.42	1,627,145	11.73
Granted	505,000	15.02	550,000	13.54
Forfeited	(111,000)	14.23	(91,626)	14.88
Expired	(3,290)	33.74	(12,531)	45.94
Exercised	(419,442)	7.16	(245,156)	7.78
Outstanding options, end of period	1,799,100	14.23	1,827,832	12.42
Options exercisable, end of period	623,100	13.46	755,832	9.97

Options outstanding and exercisable

	April 2, 2011				
	Outstanding			Exercisable	
Range of exercise prices $	Number #	Weighted average exercise price $	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price $
4.45 – 13.55	366,100	10.64	6.2	209,100	9.14
13.56 – 14.27	425,500	13.97	8.2	76,500	13.96
14.28 – 15.16	215,000	14.97	8.5	42,000	14.89
15.17 – 15.51	290,000	15.21	9.6	–	–
15.52 – 16.75	502,500	16.17	6.4	295,500	16.18
4.45 – 16.75	1,799,100	14.23	7.6	623,100	13.46

On October 31, 2002, the Company established a Directors' Deferred Share Unit Plan ("DSU Plan"). Under the DSU Plan, Directors receive their annual retainer fees and other Board-related compensation in the form of deferred share units ("DSUs"). The number of shares reserved for issuance under this plan is 250,000. The Company issued 39,159 DSUs with a value of $0.6 million during the period ended April 2, 2011 (2010 – $0.4 million). The fair value of the outstanding DSUs as at April 2, 2011 was $2.4 million (2010 – $2.0 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 either be exercised upon fulfilment of specified performance conditions or entitle the holders to a cash payout, depending on share price, upon expiry. These agreements expire on January 25, 2020. As at April 2, 2011, the Company has recorded $0.6 million as a liability relating to these options.

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

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Balance, beginning of period	4,670	3,685
Options expensed	583	1,130
DSUs expensed	554	378
Options exercised	(708)	(453)
DSUs exercised	(60)	(70)
Balance, end of period	5,039	4,670

10. INVENTORIES

The cost of inventories recognized as an expense was $585.7 million in fiscal 2011 (2010 – $538.5 million). The amount of inventory write-downs as a result of net realizable value lower than cost was $7.3 million in fiscal 2011 (2010 – $4.1 million), and there were no reversals of inventory write-downs that were recognized in fiscal 2011 or in prior periods. The amount of inventory with net realizable value equal to cost was $2.3 million as at April 2, 2011 (2010 – $1.2 million).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(thousands of dollars)	April 2, 2011	April 3, 2010
Accounts payable and accrued liabilities	**180,876**	179,159
Provision for unredeemed gift cards	**40,991**	37,816
Deferred credit	**3,092**	12,945
Total	**224,959**	229,920

12. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Interest received	**(368)**	(9)
Income taxes paid (received)	**(1,110)**	2,382
Assets acquired under capital lease	**2,321**	1,062

13. 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 Indigo reporting unit'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 Indigo reporting unit's total cost of purchases and could negatively impact the Company's net earnings. Additionally, the Indigo reporting unit'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 the Kobo reporting unit have resulted 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 the Company's 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 maximum exposure to credit risk at the reporting date is equal to the carrying value of accounts receivable. The Company has two streams of accounts receivable. Indigo's customer base primarily consists of retail customers who pay by cash or credit card, while a significant percentage of Kobo's customer base are corporate clients who pay on account. Kobo sells eBook readers to corporate clients and performs back-end operations for corporate eBook stores. Cash and credit card payments have minimal credit risk and the limited number of corporate receivables are closely monitored.

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 2, 2011 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	178,753	41,587	4,619	224,959
Current portion of long-term debt	–	1,290	–	1,290
Long-term debt	–	–	1,995	1,995
Long-term accrued liabilities	–	–	6,284	6,284
Total	178,753	42,877	12,898	234,528

14. 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 in 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, including Kobo, 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 2011.

As at April 2, 2011, the Company recorded $0.6 million (2010 – $0.4 million) of restricted cash. This restricted cash balance primarily represents cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of offshore merchandise.

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)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Current portion of long-term debt	1,290	1,863
Long-term debt	1,995	1,174
Total debt	3,285	3,037
Shareholders' equity	263,120	258,969
Total debt : Shareholders' equity	0.01:1	0.01:1

15. 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)	2011	2010	2011	2010
Current assets	2,830	3,434	1,415	1,717
Long-term assets	1,461	1,469	731	735
Current liabilities	1,828	2,195	914	1,098
Revenue	32,073	31,745	16,037	15,873
Expenses	29,514	28,804	14,757	14,402
Net earnings	2,559	2,941	1,280	1,471
Cash flows provided by (used in)				
Operating activities	2,148	2,619	1,074	1,310
Investing activities	(568)	(434)	(284)	(217)
Financing activities	(2,804)	(2,792)	(1,402)	(1,396)
Net cash flow	(1,224)	(607)	(612)	(303)

16. SEGMENTED INFORMATION

The Company currently meets the quantitative threshold to disclose two reportable operating segments: Indigo and Kobo. The Indigo segment is Canada's largest book retailer, operating a chain of retail bookstores across all 10 provinces and one territory in Canada along with an e-commerce destination that sells books, videos, DVDs, music and toys. Assets and revenues of the Indigo segment are located primarily within Canada.

The Kobo segment is a worldwide digital destination offering online and mobile services that provide instant access to books, newspapers, magazines and other digital content. The Kobo segment also develops eReader devices which are sold through wholesale and retail channels. The Kobo segment encompasses all Kobo Inc. operations. Assets of the Kobo segment are located primarily within Canada while revenues are located primarily within Canada and the United States.

The accounting policies of the segments are the same as those described in the significant accounting policies (note 2). The Company measures each reportable operating segment's performance based on earnings before income taxes and non-controlling interest. Neither reportable operating segment is reliant on any single external customer.

(thousands of dollars)	As at April 2, 2011	As at April 3, 2010
Reconciliation of Assets		
Assets		
Indigo	475,806	502,103
Kobo	40,712	18,082
Eliminations	(338)	(343)
Total assets	516,180	519,842
Reconciliation of Liabilities		
Liabilities		
Indigo	224,672	252,234
Kobo	22,041	2,151
Eliminations	–	(343)
Total liabilities	246,713	254,042

(thousands of dollars)	52-week period ended April 2, 2011	53-week period ended April 3, 2010
Reconciliation of Revenues		
Revenues		
Indigo	**956,449**	968,147
Kobo	**89,981**	780
Eliminations	**(29,105)**	–
Total revenues	**1,017,325**	968,927
Reconciliation of Earnings		
Earnings (loss) before income taxes and non-controlling interest		
Indigo	**34,048**	49,715
Kobo	**(33,260)**	(3,565)
Eliminations	**(338)**	–
Total earnings before income taxes and non-controlling interest	**450**	46,150
Income tax expense	**2,682**	12,537
Non-controlling interest	**(13,578)**	(1,310)
Net earnings	**11,346**	34,923
Selected Supplementary Information		
Depreciation and amortization expense		
Indigo	**26,627**	27,518
Kobo	**3,363**	490
Total depreciation and amortization expense	**29,990**	28,008
Net interest		
Indigo	**(303)**	(109)
Kobo	**(52)**	(10)
Total net interest	**(355)**	(119)
Capital expenditures		
Indigo	**35,277**	39,960
Kobo	**7,693**	1,198
Total capital expenditures	**42,970**	41,158

17. SALE OF NON-CONTROLLING INTEREST IN SUBSIDIARY

This was a non-recurring transaction which occurred in fiscal 2010.

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 held 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 retained control over Kobo and consolidated Kobo in the Company's consolidated financial statements. Non-controlling interest related to the Syndicate was recorded as a reduction to equity and, due to Kobo operating losses, as an increase to income.

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 increased the amount of the recognized dilution gain.

18. RELATED PARTY TRANSACTIONS

On September 8, 2010, Kobo entered into an agreement with certain of its existing shareholders (the "Investors") to provide additional capital to Kobo upon the occurrence of specified funding events. The first funding event under this agreement occurred on September 8, 2010 and Indigo purchased 2,040,816 shares for $3.6 million. The remaining Investors purchased 680,272 shares for $1.2 million. The second funding event under this agreement occurred on November 19, 2010 and Indigo purchased 2,040,816 shares for $3.6 million. The remaining Investors purchased 680,272 shares for $1.2 million. The over-allotment option was exercised on December 13, 2010 and Indigo purchased 1,224,489 shares for $2.1 million, increasing the Company's total ownership of Kobo from 57.7% to 61.4%. The remaining Investors purchased 408,163 shares for $0.7 million.

On February 22, 2011, Kobo issued 6,209,881 shares to a syndicate of investors comprised of both existing shareholders and new investors. Indigo purchased 2,589,580 common shares for $10.0 million while the rest of the syndicate members purchased a total of 3,620,301 common shares for $14.0 million. As a result of these transactions, Indigo's ownership of Kobo decreased from 61.4% to 58.3%. Under Canadian GAAP, the difference between the financing proceeds and the change in Indigo's share of Kobo's net identifiable assets is accounted for as a gain of $3.9 million for the Company.

The Company continues to be the controlling shareholder of Kobo as at April 2, 2011. During the year, the Company earned commission revenue from Kobo for referring Indigo customers to *www.kobo.com*, provided back office management services to Kobo and purchased inventory from Kobo. For Indigo gift cards which are redeemed on Kobo's website, the Company pays Kobo for the value of the gift card, less a commission fee. All related party transactions were recorded at the exchange amount and included as part of "Cost of sales, operations, selling and administration" in the Consolidated Statements of Earnings and Comprehensive Earnings. The net amount of these transactions in fiscal 2011 was $28.6 million paid by Indigo (2010 – nil).

Kobo also had a revolving line of credit with Indigo, which was collateralized by Kobo's accounts receivable. The line of credit was up to a maximum of $5.0 million but was not drawn upon during the period. The line of credit expired on March 31, 2011 and was not renewed.

During fiscal 2011, Indigo engaged Mr. Ted Marlow to perform consulting services as part of the normal course of operations for the Company. At the time he was engaged to perform consulting services, Mr. Ted Marlow served on Indigo's Board of Directors. The value of the consulting services provided was $0.1 million in fiscal 2011 and it was expensed as incurred.

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 has been, and will continue to be, proportionately recognized as a reduction of income tax expense. There was no such transaction during fiscal 2011.

19. COMMITMENTS AND CONTINGENCIES

(a) Commitments

As at April 2, 2011, 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 2012 and 2021 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.

(ii) *Capital lease obligations*

The Company entered into capital lease agreements for certain equipment. The obligations under these capital leases is $3.3 million (2010 – $3.0 million), of which $1.3 million (2010 – $1.9 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
2012	64.0	1.3	65.3
2013	55.8	1.0	56.8
2014	43.4	0.6	44.0
2015	28.6	0.4	29.0
2016	19.9	–	19.9
Thereafter	35.8	–	35.8
Total obligations	247.5	3.3	250.8

(b) Legal claims

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 2, 2011 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

20. SUBSEQUENT EVENTS

On April 19, 2011, the Company entered into an agreement with a financing services company for an operating line of credit of up to $25.0 million, collateralized by inventories and accounts receivable. This obligation bears interest, at the Company's option, at either the bank's prime rate plus 1.25% or at the banker's acceptance rate plus 2.25%.

On April 19, 2011, Kobo issued 6,743,486 shares to a syndicate of investors comprised of both existing shareholders and new investors. Indigo purchased 779,361 common shares for $3.0 million while the rest of the syndicate members purchased a total of 5,964,125 common shares for $23.0 million. As a result of these transactions, Indigo's ownership of Kobo decreased from 58.3% to 51.4%. This transaction will be accounted for under IFRS and as such, there is no gain or loss to Indigo on the transaction.

On May 30, 2011, 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 $96.0 million of non-capital tax losses in exchange for net cash consideration of $5.1 million and a note payable of $5.1 million. The note payable is non-interest bearing and will be due on March 31, 2012. The transaction was recorded at the exchange amount and included transaction costs shared between the two companies. As a result, the Company will record a future tax asset of $24.3 million and the difference of $14.1 million between the net cash consideration and the future tax asset will be accounted for under IFRS and recorded directly to retained earnings.

21. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2011 consolidated financial statements.

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
Chief Financial Officer

Ray Camano
Executive Vice President & Chief General Merchant

Laura Dunne
Senior Vice President, Human Resources & Organizational Development

Kathleen Flynn
General Counsel & Corporate Secretary

Joyce Gray
Executive Vice President, Retail & Customer Experience

Deirdre Horgan
Chief Marketing Officer

Ross Marancos
Executive Vice President, Supply Chain

Ted Marlow
President

Jim McGill
Chief Operating Officer

Sumit Oberai
Chief Information Officer

Andrew Sloss
Executive Vice President, Online

BOARD OF DIRECTORS

Bonnie Brooks
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 Officer
James Hall Advisors Inc.

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

Ted Marlow
President
Indigo Books & Music Inc.

Bruce Mau
Chief Creative Director, Cofounder
Bruce Mau Live

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

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

Joel Silver
President
Trilogy Growth

Gerald Schwartz
Chairman, Chief Executive Officer & President
Onex Corporation

Five Year Summary of Financial Information

For the years ended (millions of dollars, except share and per share data)	April 2, 2011	April 3, 2010	March 28, 2009	March 29, 2008	March 31, 2007
SELECTED STATEMENTS OF EARNINGS INFORMATION					
Revenues					
Superstores	**667.6**	670.5	634.7	620.0	591.0
Small format stores	**148.7**	157.4	166.2	159.7	157.1
Online	**90.6**	92.2	95.2	101.4	86.7
Other	**110.4**	48.8	44.3	41.8	40.2
Total revenues	**1,017.3**	968.9	940.4	922.9	875.0
EBITDA[1]	**26.2**	73.0	72.5	73.9	65.7
Earnings before income taxes and non-controlling interest	**0.5**	46.1	45.8	44.0	29.9
Net earnings and comprehensive earnings	**11.3**	34.9	30.7	52.8	30.0
Dividends per share	**$0.44**	$0.40	–	–	–
Net earnings per common share	**$0.46**	$1.42	$1.24	$2.13	$1.23
SELECTED BALANCE SHEET INFORMATION					
Working capital	**103.9**	106.4	87.1	76.6	28.8
Total assets	**516.2**	519.8	487.5	421.0	397.3
Long-term debt (including current portion)	**3.3**	3.0	5.0	6.0	20.5
Shareholders' equity	**263.1**	259.0	230.9	203.8	148.8
Long-term debt/(long-term debt + shareholders' equity)	**0.01:1**	0.01:1	0.02:1	0.03:1	0.12:1
Weighted average number of shares outstanding	**24,874,199**	24,549,622	24,674,523	24,744,334	24,359,451
Common shares outstanding at end of period	**25,140,540**	24,742,915	24,526,272	24,843,147	24,647,554
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**97**	96	90	86	88
Small format stores	**149**	150	155	158	158
Selling square footage at end of period (in thousands)					
Superstores	**2,235**	2,217	2,110	2,042	2,090
Small format stores	**410**	412	415	422	425
Comparable store sales					
Superstores	**(0.3%)**	0.6%	2.4%	4.4%	2.5%
Small format stores	**(3.2%)**	(2.2%)	4.3%	3.0%	2.2%
Sales per selling square foot					
Superstores	**299**	302	301	304	283
Small format stores	**363**	382	400	378	370

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

Investor Information

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Janet Eger
Director, Public Relations
Telephone (416) 342-8561

STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

IDG

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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 5, 2011 at 10:00 a.m. at
The Hyatt Regency
370 King Street West
Toronto, Ontario
Canada M5V 1J9

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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