ANNUAL REPORT

FOR THE 53-WEEK PERIOD ENDED APRIL 3, 2004

"There is no friend as loyal as a book"

ERNEST HEMINGWAY

Indigo

Books & Music Inc.

www.indigo.ca

The Indigo Mission

The book-lover's r*etailer of choice

To provide book-lovers, culture makers, information and entertainment seekers with the most inspiring, richly stocked and inviting r*etail environments in the world; and to provide shareholders and employees with a meaningful return on their investment in this enterprise.

Indigo operates under the following banners: *Indigo Books, Music & More*; *Chapters*; *Coles*; *The World's Biggest Bookstore* and *chapters.indigo.ca*. The Company employs approximately 6,200 people across the country.

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Report of the CEO

Dear Shareholder,

As always, I am pleased to have this opportunity to discuss the results of the year and share some comments on the year ahead.

In keeping with the approach I generally take in these letters, I will structure my comments under three headings: operating results for the year ended, commentary on progress against strategic initiatives identified in last year's Annual Report, and overview of our focus for the year ahead.

Operating Results

Fiscal 2004 will go down as a year of continual challenges from the external environment. Over the course of the 12 months, we experienced SARS and a 3-day blackout in central Canada, Mad Cow disease and forest fires in the west, and economy stopping ice and snow storms in Atlantic Canada. It is not unusual to have some environmental issues, but this year it seemed every time there was some consumer momentum, something happened to dial it back. This, together with the fact that the economy did not start to warm up until the fourth quarter of the year, meant we were fighting an uphill battle a good deal of the time.

In total, across all channels, the Company achieved revenues of $805.7 million, EBITDA of $44.4 million, and net operating profit of $4.3 million. In all cases, this represents good progress over the previous year with gains of 3.4%, 5.7%, and 205.0% respectively, but we were still a good distance from the operating targets we intended to achieve. It is worth noting that the 2004 revenues were achieved on a base which had approximately 71,000 fewer square feet of retail space than the previous year as we continued our efforts, over the year, to rationalize our real estate portfolio.

By channel, results are as follows:

Superstores

Superstore growth this year was $20.1 million with virtually all of this attributable to comparable store growth. We started the year with 88 stores and ended with 87. The 2.7% comparable store growth fell short of the internal growth objective we had set at the start of the year. We believe this year's growth was significantly affected by the environmental factors noted above, together with the reality that competition from alternative channels – i.e., discounters and online competitors – including our own – continues to grow. During the

year we also continued to be hampered by the poor inventory management and information systems that remained in place while we worked on the design and development of the new SAP system that was implemented on May 2, 2004.

Having said that, we strongly believe that our stores continue to be among the first places consumers go for an affordable entertaining shopping experience. Consumer research, which we conducted over the course of the year, confirms this, as does the tremendous success of our iRewards loyalty program, an area I will comment on more fully later in this letter.

Mall Stores

Mall store sales this year were $169.5 million, with comparable store sales growth dropping 0.1% for the full year. Over the course of the year, we closed 12 mall stores and relocated one other store.

In last year's letter we commented on our intention to reposition our Coles or mall store business. Early in the year, however, we determined that in the absence of more sophisticated inventory management information, any repositioning effort would be hindered. With that in mind, we focused our attention on improving the leadership team in the Coles division and doing as much as we could to drive customer satisfaction within the constraints on the business.

We believe the impact of our focus on the Coles brand is starting to show some positive results. As we headed into the 2004 fiscal year, the Coles stores were coming off several months of consecutive negative growth in 2003 and this trend continued into the first half of 2004. In the last quarter of 2004, Coles achieved 2.5% comparable store growth.

Online

Our online channel had an outstanding year, achieving sales of $52.1 million and growth of 33.2%. This was achieved in a highly competitive environment. Some interesting new services were added for customers, including the ability to search a title online and pick the book up at the store closest to the customer. We also introduced an in-store return policy which helped to build confidence and satisfaction with our customers.

We see continued growth and opportunity in this channel, particularly as we move to more fully leverage the synergies between our "bricks & clicks" operations.

A Word on the Indigo iRewards Program

Behind the numbers there are some interesting facts. Over the course of the year, just under one million people chose to become members of iRewards, our loyalty program which provides discounts and advanced information on events and new offerings in exchange for a

membership fee. We believe the number of members, a high percentage of which are renewals, speaks to the commitment of our customers to spend a good amount of their disposable income in our stores.

Our iRewards program also provides us with an excellent base of people with whom we can communicate on a regular basis, to test new ideas, learn about customer concerns and understand what aspects of our offering are most valued by customers. Increasingly, the customer relationships created by both our online business and our iRewards program will be the basis for highly effective one-to-one customer communication and marketing. We believe strongly that this database of customers is an important, non-balance sheet asset of the business.

Comments on Strategic Progress during FY04 and Focus for FY05

In last year's Annual Report, we identified six strategic initiatives. Let me report on progress against these initiatives.

Supply Chain Redesign

In our fiscal 2003 Annual Report, I indicated that the first major undertaking we would commit to post merger was a total redesign of our supply chain. In reporting last year, I indicated that we had completed a great deal of process redesign work relating to supply chain, had selected SAP as our enterprise system, and would spend significant financial and human resources during fiscal 2004 developing and implementing the SAP platform. This was a major undertaking.

I am pleased to report that just after year end, exactly as planned, we converted our entire systems and supply chain infrastructure over to the new SAP reality. At the time of this letter, we are still working out some expected transition issues but I can report that the implementation has been very successful. We expect to stabilize on this new platform by the end of the second quarter of the current fiscal year, with minimal disruption to the business.

Looking ahead, as we move from initial implementation to on-going operations, we will transition our supply chain focus to a continuous improvement mode, all toward our objective of "having the right product, at the right place, in the right quantities"; and our twin goals of ultimate customer satisfaction and industry leading return on inventory investment.

One important aspect of this initiative is the opportunity to meaningfully decrease returns. Product returns in our print business add substantial cost to our operations and to the operations of our publishing industry partners. We look forward to driving costs down on both sides of our respective boundaries in a number of key ways, but in particular, as it relates to the hugely disruptive impact of returns.

Loss Prevention

Going into FY04, shrink at the Company was running at 3.0% of sales – an inordinately high number. We made shrink reduction "Job 1" for the year, recognizing that achieving best-in-class levels of 1% would be a three-year effort. I am pleased to say that from a standing start, we moved quickly to implement a comprehensive program and were successful in reducing shrink to 2.3%, with the run rate going into this year being well below this. A major contributor to this past year's shrink numbers was paper error stemming from the poor and patched systems in the Company. With the advent of SAP, paper shrink should be dramatically reduced. To be sure, we still have much to do in this area and it will remain a big focus of our efforts, but as with our SAP program, it will move from a specific strategic initiative to becoming an embedded aspect of our operating process.

Portfolio Rationalization

Slowly but surely, we are moving to rationalize our store base. We made a good deal of progress on the Coles side this year, closing 12 stores and relocating one other. On the superstore side, we were successful in closing one store and still have a few stores on our disposition list. The market for retail space has just begun to heat up after several years of quiet and we are hopeful that by the end of this year we will have addressed our remaining real estate issues. Our objective now is to continually upgrade our portfolio and identify new opportunities for growth.

Coles Repositioning

As noted earlier in this letter, we decided to put off for one year any meaningful repositioning of this brand as we needed our new systems, and the information they provide, to effectively capture the opportunity which exists in our mall format. The key to the success of our mall format, moving forward, will be the ability to carefully merchandise each store to suit the needs and demands of the local customer base it serves. This has now been identified as a high priority initiative for this year and we look forward to reporting further on this in the months ahead.

Online Expansion

We committed last year to ensuring that we did not lose our position as a strong market player in this space, notwithstanding the tremendous effort of the competition. We met our sales target and committed ourselves to even more aggressive growth and development for this very key channel.

Retail Excellence

The final area we identified in last year's report was our commitment to implement the first phase of a program we have called Retail Excellence. The objective of this program was to increase customer conversion, average transaction, and customer satisfaction.

Toward this end, we implemented a major restructuring of our retail store operations and began to roll-out store level training programs essential to achieve these objectives.

We planned this as a two-year initiative, with further ongoing efforts, so a great deal still must be done. However, it is satisfying to report that over the course of this year, we were successful in improving performance against each of the metrics noted above.

Looking Forward

Several of the initiatives that we have identified in previous Annual Reports – Supply Chain Excellence, Retail Excellence, and Loss Prevention – will remain high priority areas in the year ahead. More than ever, we believe in the importance of intense and continued focus on initiatives that allow us to be an operational leader. However, at the same time, we are now in a position to renew our focus on growth, particularly through increased productivity of our existing store base. We intend to do this in the following ways:

Build the True Cultural Department Store: In our superstores, our objective over the next 18 months is to fully implement our Cultural Department Store concept and, by extension, meaningfully increase our sales per square foot. Toward this end, we will expand our Lifestyle and Gift offerings, improve the relevance of our book offering in each store to meet the idiosyncratic needs of individual trade areas, designate some stores as centres of excellence on specific topics, and expand our DVD and entertainment offering. As part of this initiative, we will also test the next generation design of our superstore concept.

Expand the offering and experience on chapters.indigo.ca: Increasingly, electronic shopping and physical shopping are becoming integrated experiences. Customers search online and purchase in stores, or search in stores and expand purchases through our kiosks. This behaviour will only increase as time goes by.

With this in mind and consistent with our goal to leverage our "bricks & clicks" position, we will, over the course of the next year, improve several aspects of our online search and shopping experience, expand the capability and usability of our in-store kiosks, and add new product categories to our online offering.

Coles Repositioning: As noted earlier, we will implement this initiative this year.

A final word on our people: Ours is a challenging and demanding business. We operate seven days a week, in virtually every city and town in this country. Daily, we move thousands and thousands of products from suppliers through our warehouse to over 250 different locations. Over the course of the year, we serve over 28 million individual customers, and this, only if we count those who actually make a purchase. This is a business with a lot of moving parts.

Behind all these numbers is perhaps the most committed and passionate group of people in any retail company today. I want to take this opportunity, on behalf of all Indigo shareholders, to say a very heartfelt thank you to everyone who is part of the Indigo team. Over the last few years we have been through a great deal together. And each of you has made an outstanding contribution to the on-going growth and development of this Company.

One of our Guiding Principles states that *"We believe that great companies are built over time through the efforts of talented, committed people. We will take the time to build this Company consistent with our beliefs and guiding principles, knowing that the result will be a great and lasting enterprise with the potential for sustained success"*. I believe we are headed in the direction of being a great retail company, precisely because of the quality and involvement of everyone who is here. And we will continue on this path.

Thanks too, to our shareholders who have been patient and supportive. I look forward to writing to you next year to again report on our progress.

Management's Responsibility for Financial Reporting

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

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

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

Heather Reisman
Chair and Chief Executive Officer

Jim McGill
Chief Financial Officer

Management's Discussion and Analysis

The following discussion and analysis is based primarily on the consolidated financial statements of Indigo Books & Music Inc. (the "Company" or "Indigo") for the 53-week period ended April 3, 2004 and the 52-week period ended March 29, 2003. It should be read in conjunction with the consolidated financial statements and notes contained in this Annual Report.

Certain financial measures discussed in the following discussion and analysis are not necessarily defined by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

Overview

Indigo is the nation's largest book retailer, operating stores in all ten provinces in Canada and offering online sales through its *www.chapters.indigo.ca* web site. As at April 3, 2004, the Company operated 87 superstores under the banners *Chapters*, *Indigo* and the *World's Biggest Bookstore*, and 167 mall stores, under the banners *Coles*, *SmithBooks*, *LibrairieSmith* and *The Book Company*. The Company also has a 51% interest in Chapters Campus Bookstores Company, which operates 5 university and college bookstores, and a 50% interest in Calendar Club of Canada Limited Partnership, which operates seasonal kiosks in shopping malls across Canada.

During the year, the Company closed one superstore and 13 mall stores as part of an ongoing initiative to streamline its real estate portfolio. In June 2003, the Company also closed the McGill University Bookstore in Montreal as its contract expired and was not renewed. The Company opened one new mall store during fiscal 2004.

The weighted average number of common shares outstanding for the year was approximately 24.0 million as compared to 22.5 million last year. The Company completed a rights offering for 4,243,841 common shares on April 19, 2002 and a rights offering for 2,662,755 common shares on September 27, 2002.

On May 2, 2004, the Company replaced its procurement, inventory management and financial reporting systems with an integrated SAP Supply Chain system ("SAP"). In preparation for the conversion, the Company rationalized its inventory levels, which impacted cost of sales in the fourth quarter, as well as year end inventory and accounts payable balances. Additional details are provided in subsequent sections of this report.

Results of Operations

Canadian Retail Environment

In 2003, the Canadian economy was impacted by a number of uncontrollable events, including a SARS outbreak in Ontario, a hurricane on the east coast, and forest fires in British Columbia, all of which affected retail sales. A power blackout in Ontario also negatively affected most businesses and forced retailers to close stores for up to three days in August. Despite these events, the Canadian retail sector remains healthy, as evident from rising consumer confidence and strong growth in disposable income and the employment rate.

The book retailing industry continues to remain very competitive. An increasing number of large retailers are broadening their product assortments to include books as part of their offerings, which creates new competition for the Company. Furthermore, aggressive discounts given by competitors through their retail or online channels provide a challenging operating environment for the Company.

Revenues

Total consolidated revenues for the 53-week period ended April 3, 2004 increased 3.4% to $805.7 million from $779.2 million for the 52-week period ended March 29, 2003. On a normalized 52-week basis, total revenues were up

1.8% compared to the previous year. Comparable store sales (for stores that were open for more than 12 months) were up 2.7% in superstores and down 0.1% in mall stores. Revenues by channel are highlighted below:

(millions of dollars)	FY04	FY03	% increase	% increase normalized for 52 weeks	Comparable store sales % increase
Superstores	**548.2**	528.1	3.8	2.1	2.7
Mall Stores	**169.4**	174.0	(2.6)	(4.0)	(0.1)
Online (including store kiosks)	**52.1**	39.1	33.2	30.9	N/A
Other	**36.0**	38.0	(5.5)	(6.5)	N/A
	805.7	779.2	3.4	1.8	2.0

A number of factors contributed to the overall growth of the business and helped offset the environmental issues outlined above:

- The release of the latest *Harry Potter* book contributed to strong growth in the first quarter of fiscal 2004. Sales of this title were nearly four times greater than the next largest bestseller in fiscal 2004.
- Comparable store sales growth in the superstore channel was driven by a major re-merchandising effort completed in the second quarter of fiscal 2004 and an ongoing focus on sales and service excellence.
- Absolute revenue in mall stores decreased in fiscal 2004 due to the closure of 13 locations during the year. Comparable store sales were flat, consistent with overall mall traffic trends.
- Strong growth in the Online channel was driven by growing consumer acceptance of online shopping in general, along with aggressive pricing, broader product selection, and improved shipping options.
- Other revenue, which includes the Company's loyalty card program and its proportionate share of joint ventures in campus bookstores and seasonal mall kiosks, decreased due to the closure of the McGill University bookstore when the contract expired in the first quarter of fiscal 2004. The Company's loyalty card program was re-launched with improved consumer benefits in October 2003, and from November 2003 to the end of the fiscal year, revenue from loyalty customers grew by 7% compared to the same period the previous year.

Cost of Product, Purchasing, Selling and Administration

Operating costs decreased from 94.6% of sales to 94.5% of sales. Material improvements in shrink and labour productivity allowed the Company to invest in higher sales discounts to match market pricing on selected products and to reduce inventory in selected categories in advance of the SAP conversion.

	FY04 (% Sales)	FY03 (% Sales)
Shrink	**2.3**	3.0
Retail labour	**10.6**	11.1
Sales discounts	**6.7**	5.6

Operating Earnings

Operating earnings, defined as revenues less cost of product, purchasing, selling and administration, increased 5.7% to $44.4 million from $42.0 million last year. On a normalized 52-week basis, operating earnings were up 4.1% driven by increased sales and reduced costs as described above.

Amortization

Amortization increased $0.4 million to $24.3 million compared to $23.9 million last year. Capital expenditures in the current year totalled $19.1 million, and included major investments in store kiosks and SAP.

Interest Expense

Interest expense increased 0.6% to $14.9 million from $14.8 million last year. Interest expense in the current year included a debt settlement expense of $3.5 million relating to the repayment of the Company's convertible subordinated notes. Excluding this one-time charge, interest expense decreased 23.4% compared to last year due to a reduction in the overall indebtedness level of the Company.

Net Earnings

Net earnings for the period were $4.3 million ($0.18 per common share) as compared to net earnings of $1.4 million ($0.06 per common share) last period. Operating earnings contributed $2.4 million of the increase and interest and amortization were $0.5 million higher as noted earlier. Income tax expense was $1.0 million lower due to the use of tax loss carryforwards, offset by a change in enacted tax rates and a change in the Company's tax valuation allowance as highlighted in Note 4 of the consolidated financial statements.

The Company's revenues, comparable store sales, store openings, store closings, number of stores and selling square footage at the fiscal year-end are set forth below:

	53-week period ended April 3, 2004	52-week period ended March 29, 2003	52-week period ended March 30, 2002
Revenues (thousands of dollars)			
Superstores	**$ 548,222**	$ 528,122	$ 485,767
Mall Stores	**169,450**	173,967	183,792
Other	**35,982**	38,062	31,394
Online (including store kiosks)	**52,062**	39,093	34,731
	$ 805,716	$ 779,244	$ 735,684
Comparable Store Sales			
Superstores	**2.7%**	5.3%	1.1%
Mall Stores	**(0.1%)**	(0.2%)	3.7%
Stores Opened			
Superstores (opened and acquired)	**–**	–	16
Mall Stores	**1**	–	–
	1	–	16
Stores Closed			
Superstores	**1**	2	3
Mall Stores	**13**	8	17
Campus Bookstores	**1**	–	–
	15	10	20
Number of Stores Open at Year-End			
Superstores	**87**	88	90
Mall Stores	**167**	179	187
Campus Bookstores	**5**	6	6
	259	273	283
Selling Square Footage at Year-End (in thousands)			
Superstores	**2,105**	2,123	2,164
Mall Stores	**451**	476	496
Campus Bookstores	**10**	38	38
	2,566	2,637	2,698

Seasonality and Fourth Quarter Results

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to 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.

	Fiscal quarters ended on or about:			
(thousands of dollars, except per share data)	June 30	September 30	December 31	March 31
Fiscal 2004 Revenues	**164,248**	**170,080**	**279,431**	**191,957**
Net earnings (loss)	**(11,548)**	**(7,590)**	**28,779**	**(5,295)**
Basic earnings (loss) per share	**$ (0.48)**	**$ (0.32)**	**$ 1.20**	**$ (0.22)**
Diluted earnings (loss) per share	**(0.48)**	**(0.32)**	**1.12**	**(0.22)**
Fiscal 2003 Revenues	156,336	171,207	277,454	174,247
Net earnings (loss)	(13,182)	(7,629)	30,771	(8,535)
Basic earnings (loss) per share	$ (0.63)	$ (0.36)	$ 1.28	$ (0.36)
Diluted earnings (loss) per share	(0.63)	(0.36)	1.21	(0.36)

Consolidated revenues for the fourth quarter in fiscal 2004 were up $17.7 million (10.2%) to $192.0 million. On a normalized 13-week basis, revenues were up 3.0%. Net earnings were up 38.0% on an absolute basis, and 29.8% on a normalized 13-week basis. Net earnings in the fourth quarter increased relative to the same period last year due to increased revenue, reduced shrink and improved labour productivity as discussed earlier.

Overview of Consolidated Balance Sheets

Total assets increased by $6.0 million as compared to the fiscal year ended March 29, 2003. This is primarily due to higher future tax assets and prepaid expenses which were offset by a reduction in goodwill and net capital assets. The Company recognized $5.9 million of future tax assets this year based on the increased likelihood of utilizing its non-capital loss carryforwards and changes in enacted tax rates. Prepaid expenses increased $6.8 million compared to fiscal 2003 due to the timing of the fiscal year end date, as Indigo prepaid some occupancy expenses for April 2004. The $6.0 million reduction in goodwill was associated with the use of tax loss carryforwards acquired during the business combination in fiscal 2002 which were not recognized as future tax assets at the time of the combination. As the Company used a portion of the acquired unused tax losses this year, the benefit of the use of these losses was applied to reduce unamortized goodwill. Net capital assets decreased by $3.0 million as the Company closed a total of 15 stores this year.

Total liabilities increased by $2.7 million as compared to the fiscal year ended March 29, 2003. The increase was the result of higher income taxes payable and higher deferred revenue because of growth in Indigo's loyalty card program. Total net debt (including cash, bank indebtedness, long-term debt and convertible subordinated notes) remained the same as last year. The Company repaid $31.0 million of long-term debt in December and refinanced its remaining term debt and operating line of credit in April 2004. As part of the refinancing, Indigo incurred $49.0 million in new long-term debt, which was used to repay existing term debt due in May 2005 and the convertible subordinated notes due in June 2005.

Shareholders' equity increased by $3.3 million compared to last year due to higher net earnings of $4.3 million. Share capital remained the same and the equity portion of the convertible notes was eliminated when the convertible subordinated notes were paid off. The expensing of stock options and the issuance of Directors' Deferred Stock Units were recorded as contributed surplus this period in the amount of $0.1 million and $0.3 million, respectively.

Overview of Consolidated Statements of Cash Flows

Cash and cash equivalents in fiscal 2004 increased $8.7 million compared to a cash decrease of $0.7 million in fiscal 2003. Operating activities generated $31.2 million in cash. In addition, Indigo increased the use of its operating line by $42.0 million and incurred $27.0 million in net new long-term debt. The cash was used to repay $31.0 million of existing long-term debt and $39.4 million on the Company's convertible subordinated notes. An additional $19.1 million was invested in capital projects as outlined below.

Working capital at year end was $6.7 million higher than last year due to the timing of prepaid expenses as explained above and lower accounts payable and accrued liabilities. During the year, the Company paid out $2.5 million on items relating to restructuring of the Indigo's real estate portfolio, which in turn reduced accrued liabilities. During the period, the Company reduced its inventory levels from $202.4 million to $199.4 million bringing about a corresponding decrease in accounts payable. At the period end, Indigo further reduced its accounts payable in preparation for the SAP conversion.

Net cash used in investing activities consisted of capital expenditures of $19.1 million in fiscal 2004 versus $14.1 million in fiscal 2003. The following table presents the capital expenditures over the last two years by category:

(millions of dollars)	**FY04**	FY03
Store renovations	**5.9**	8.6
Technology-related projects	**13.2**	5.5

Store renovations are typically done upon lease renewal and at selected points throughout a lease term. The amounts spent in fiscal 2004 and fiscal 2003 are reflective of the average term of leases in the Company's portfolio. The increase in technology-related projects reflects an investment in SAP and the installation of in-store order kiosks in all mall stores.

Liquidity and Capital Resources

The Company has a highly seasonal business which generates the majority of its revenues and cash flow during the holiday season. Indigo has minimal accounts receivable, as its customers pay largely by cash or credit card and it purchases products on trade terms with the right to return a significant portion of its products. As a result, the Company is usually in a working capital deficit position at the end of the fiscal year. Indigo historically has been a net borrower in the first, second and fourth quarter, and repaid all of its outstanding debt owing on its credit line during the third quarter.

Indigo's main sources of capital are cash flow generated from operations, a revolving line of credit and its long-term debt. Under an existing agreement with its bank, the Company can borrow up to $90.0 million on its line of credit. As at April 3, 2004, $53.0 million was drawn against this facility. 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
Long-term debt	12.0	24.0	13.0	–	49.0
Capital lease obligations	1.2	2.3	–	–	3.5
Operating leases	56.8	107.2	83.6	73.5	321.1
Total obligations	70.0	133.5	96.6	73.5	373.6

Based on current operating levels, management expects cash flow generated from operations along with the available borrowing capacity under the Company's credit facility to be sufficient to meet its working capital needs and debt service requirements for the next fiscal year. Indigo also has the ability to reduce capital spending to fund debt requirements if necessary, however, a long-term decline in capital expenditures may negatively impact revenue and profit growth.

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 flow. 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. 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. 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 retail inventory method to account for inventory and cost of sales. Under this method, inventory is separated into similar merchandise categories. All receipts are added into an inventory pool using actual costs, and all sales are removed from the inventory pool using an average margin for the pool. The average margin is continually updated based on the flow of goods into and out of the pool. When the Company permanently reduces the retail price of an item, there is a corresponding reduction in inventory recognized in the period the markdown is incurred rather than at the time of sale. The Company reduces inventory for estimated shrinkage that has occurred between annual physical inventory counts. The net result is that inventory is valued at the lower of costs or net realizable value, less a normal profit margin.

In addition, Indigo records an obsolescence provision based on assumptions about future sales demand, customer preferences, inventory levels and product quality. Management reviews the provision regularly and assesses whether it is appropriate based on economic conditions.

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

Pension Plan

The plan obligations and related assets of the pension plan are presented in Note 7 of the consolidated financial statements. The plan obligation is calculated based upon actuarial assumptions on variables such as the discount rate, rate of compensation increase, and the expected long-term rates of return on pension plan assets. The variability of the estimates is discussed in more detail in the "Risks and Uncertainties" section of this MD&A.

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.

Indigo currently has future tax assets associated with its non-capital loss carryforwards, 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 which are derived from internal forecasts, earnings or losses in recent years, and the expiry date of these losses. Based on this information, Indigo determines the amount of income tax valuation allowance that is required to reduce the value of its total loss carryforwards to that which it estimates it can utilize. Any changes in estimates would affect the income tax expense on the consolidated statements of earnings and future tax assets on the consolidated balance sheets. If actual experience differs from the current estimates, the future value of these loss carryforwards may change significantly and the Company may incur a non-cash tax expense.

As part of the purchase price allocation for the acquisition of Indigo Books & Music, Inc. ("Old Indigo"), no future income tax asset was recognized for the unused tax losses of Old Indigo that existed at the date of acquisition. When unused tax losses acquired in a business combination that were not recognized as a future tax asset by the acquirer at the date of the acquisition are subsequently recognized by the acquirer, the benefit is applied to reduce any unamortized goodwill related to the acquisition and the Company incurred a non-cash tax expense in the same amount. As a result, the Company may incur non-cash tax expense in future years when utilizing this acquired unused non-capital loss carryforwards.

Restructuring Provision

Indigo has a provision for restructuring costs which was established at the time of the merger in fiscal 2002. The provision includes legal fees, commission and disposal cost estimates for 8 stores that were identified for closure at the time of merger but still remain open. These are based on management's best estimates of the costs at which the Company would be willing to sublease these properties for. Indigo has each of these sites listed with an outside realtor who is actively looking for new tenants to lease these properties. The Company evaluates any proposals at the time of receipt to determine if the offer is fair based on existing market conditions. Any changes in assumptions, such as prevailing market rent or intention to close a store, could result in the recognition of income or expense on the Company's consolidated statements of earnings in future years.

New Accounting Standards

The following accounting standard has been adopted by the Company in the current fiscal year:

Stock-based compensation

Effective March 30, 2003, in accordance with the recommendations issued by the Canadian Institute of Chartered Accountants ("CICA"), the Company changed its method of accounting for stock options to the fair value method. 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. As a result of this change in accounting policy, which was applied prospectively, an expense of $0.1 million was recorded for the 53-week period ended April 3, 2004 to reflect the fair value of employees' stock options that were granted and vested during the period. The pro forma impact of options issued before this fiscal year is included in Note 8 of the consolidated financial statements.

Indigo had an option to adopt this standard in fiscal 2005 on a retroactive basis, but consistent with other companies, the Company decided to adopt the new accounting standard this year.

The following accounting standards and policies will be adopted by the Company in the next fiscal year:

Hedging Relationships

The CICA has issued a new accounting guideline on hedging relationships. This guideline requires companies to identify, designate, document and assess the effectiveness of its hedging relationships. The new guideline is applicable to

hedging relationships in effect in fiscal years beginning on or after July 1, 2003. The Company has completed the documentation process for all hedges currently in place. Management does not believe the prospective implementation of this guideline will have a material financial impact on the Company.

Cash Consideration Received from a Vendor

The Emerging Issues Committee of the CICA has issued a new abstract on accounting for certain consideration received from a vendor. The new abstract will affect the accounting for and the classification of amounts received from a vendor, such as cooperative advertising. Under the new abstract, cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products rather than revenue and should be classified as a reduction in cost of sales, unless certain specific conditions are met. The guidance will apply to all financial statements for annual and interim periods ending on or after August 15, 2004 and is to be applied retroactively. The Company believes the adoption of this guideline will not have a material impact on sales and net earnings.

Inventory

Effective April 4, 2004, Indigo changed its accounting policy with respect to inventory valuation. Previously, the Company used the retail inventory method. Under the new method, inventory will be valued at the lower of cost and net realizable value. The new accounting policy is adopted on a prospective basis, since the necessary financial data for retroactive adoption is not reasonably determined.

Financial Instruments

Indigo uses derivative financial instruments to manage the risks of its foreign currency and interest rate exposure. The Company enters into foreign exchange derivative agreements to hedge future purchases of U.S. denominated goods and services. The Company also uses interest rate swap agreements to manage the fixed and floating interest rate mix of Indigo's total debt portfolio. The risks associated with the use of derivative financial instruments are discussed further under the "Risks and Uncertainties" section.

The fair value of financial instruments is the estimated amount the Company would receive or pay to terminate the contracts at the reporting date. 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.

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

The fair values 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.

The fair values of interest rate derivatives are estimated by discounting cash payments of the derivatives at market rates for derivatives of the same remaining maturities. The Company entered into an interest rate swap agreement on April 2, 2004 and the mark-to-market value of the interest rate swap was zero as at April 3, 2004. At this time, the Company does not intend to terminate the interest rate swap agreement and therefore does not anticipate any impact on earnings arising from the differences between book value and fair value.

Indigo did not have any foreign currency derivative agreements in place as at April 3, 2004.

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. Aggressive merchandising or discounting by competitors in either the retail or online 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 it 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)*. 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.

Foreign Exchange, Interest Rate and Credit Risk

It is the Company's policy to identify and manage currency and interest rate risk through the use of derivative financial instruments. Counter-party credit risk is considered to be negligible as the Company only deals with highly rated financial institutions.

Indigo's foreign exchange risk is largely limited to risks related currency fluctuations between the Canadian and U.S. Dollar. The Company has minimal requirements for Euros, British Pounds and Hong Kong Dollars. Indigo is currently using forward contracts to fix the exchange rate on a portion of its expected requirement for U.S. Dollars. The Company's interest rate risk is limited to the fluctuation of the floating rates on its outstanding debt.

Leases

The average unexpired lease term of Indigo's mall stores is approximately 2.3 years. 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 shopping mall space. Unanticipated increases in occupancy costs, and the incursion of store closing costs or relocation expenses could unfavourably impact the Company's performance. With an average unexpired lease term of 5.2 years, Indigo's superstores' rental expense is expected to remain stable.

Pension Plan

The Company is in the process of winding up its defined benefit plan and disbursing all assets to plan members. The timing of the disbursement is dependent upon regulatory approval. There is no assurance that the Company's benefit plan assets will be able to earn the assumed rate of return between now and the estimated final settlement of the plan. If actual returns and/or the final settlement date of the plan are different than the current estimates, Indigo may incur a larger settlement expense than anticipated.

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

A former supplier has filed a claim against the Company in relation to unpaid invoices and to rejected and excessive returns. Indigo is of the view that the claim is without merit and lacks a factual or legal foundation and the Company intends to vigorously defend the claim. The final outcome of the claim and the amount of losses, if any, cannot be predicted with certainty at this time, however, it is the opinion of management that the resolution of the claim will not have a material adverse effect on the Company's financial position.

In the normal course of business, Indigo becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2004 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

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.

Auditors' Report

To the Shareholders of Indigo Books & Music Inc.

We have audited the consolidated balance sheets of Indigo Books & Music Inc. as at April 3, 2004 and March 29, 2003 and the consolidated statements of earnings, deficit and cash flows for the 53-week and 52-week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 3, 2004 and March 29, 2003 and the results of its operations and its cash flows for the 53-week and 52-week periods then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada,
May 14, 2004

Consolidated Balance Sheets

(thousands of dollars)	As at April 3, 2004	As at March 29, 2003
ASSETS		
Current		
Cash and cash equivalents	**8,698**	–
Accounts receivable	**6,951**	9,383
Inventories	**199,421**	202,455
Income taxes recoverable	–	181
Prepaid expenses	**12,431**	5,663
Future tax assets (note 4)	**3,939**	4,012
Total current assets	**231,440**	221,694
Capital assets, net (note 3)	**103,146**	106,170
Future tax assets (note 4)	**12,640**	6,671
Goodwill (note 5)	**52,496**	58,458
Deferred financing fees, net of accumulated amortization of nil (March 29, 2003 – $2,391)	**1,012**	1,784
	400,734	394,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (note 6)	**63,369**	21,388
Accounts payable and accrued liabilities (note 10)	**180,813**	189,702
Income taxes payable	**1,376**	–
Deferred revenue	**8,732**	6,835
Current portion of long-term debt (note 6)	**13,183**	31,324
Total current liabilities	**267,473**	249,249
Accrued benefit obligations (note 7)	**328**	886
Long-term debt (note 6)	**39,263**	23,186
Convertible notes (note 9)	–	31,092
Total liabilities	**307,064**	304,413
Commitments and contingencies (note 13)		
Shareholders' equity		
Share capital (note 8)	**193,426**	193,426
Contributed surplus (note 8)	**438**	–
Equity portion of convertible notes (note 9)	–	1,903
Deficit	**(100,194)**	(104,965)
Total shareholders' equity	**93,670**	90,364
	400,734	394,777

See accompanying notes

Heather M. Reisman
Director

Senator Michael Kirby
Director

Consolidated Statements of Earnings

(thousands of dollars, except per share data)	**53-week period ended April 3, 2004**	52-week period ended March 29, 2003
Revenues	**805,716**	779,244
Cost of product, purchasing, selling and administration	**761,300**	737,228
	44,416	42,016
Amortization of capital assets	**24,313**	23,864
Amortization of pre-opening store costs	**–**	30
Earnings before the undernoted items	**20,103**	18,122
Interest on long-term debt and financing charges (notes 6 and 9)	**9,241**	8,568
Interest on bank indebtedness (note 6)	**5,640**	6,229
Earnings before income taxes	**5,222**	3,325
Income tax expense (note 4)	**876**	1,900
Net earnings for the period	**4,346**	1,425
Net earnings per common share (note 8)		
Basic	**$0.18**	$0.06
Diluted	**$0.18**	$0.06

See accompanying notes

Consolidated Statements of Deficit

(thousands of dollars)	**53-week period ended April 3, 2004**	52-week period ended March 29, 2003
Deficit, beginning of period	**(104,965)**	(101,578)
Goodwill impairment loss (note 5)	**–**	(4,812)
Early redemption of convertible notes (note 9)	**425**	–
Net earnings for the period	**4,346**	1,425
Deficit, end of period	**(100,194)**	(104,965)

See accompanying notes

Consolidated Statements of Cash Flows

(thousands of dollars)	53-week period ended April 3, 2004	52-week period ended March 29, 2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the period	**4,346**	1,425
Add (deduct) items not affecting cash		
Amortization	**24,313**	23,894
Stock-based compensation (note 8)	**113**	–
Directors' compensation (note 8)	**325**	–
Future income taxes	**66**	1,300
Loss on disposal of capital assets	**716**	643
Benefit plan credit	**(558)**	(420)
Accrued interest on convertible notes	**3,259**	3,021
Amortization of deferred financing fees	**1,784**	1,505
Early extinguishment of convertible notes (note 9)	**3,546**	–
Net change in non-cash working capital balances related to operations		
Accounts receivable	**2,432**	3,434
Inventories	**3,034**	21,012
Prepaid expenses	**(6,768)**	(1,355)
Income taxes recoverable/payable	**1,557**	4,769
Deferred revenue	**1,897**	210
Accounts payable and accrued liabilities	**(8,889)**	(9,044)
Cash flows provided by operating activities	**31,173**	50,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	**(19,115)**	(14,107)
Cash flows used in investing activities	**(19,115)**	(14,107)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**41,981**	(35,866)
Proceeds from share issuances	**–**	29,921
Repayment of long-term debt (note 6)	**(31,954)**	(31,019)
Proceeds from long-term debt issuance (note 6)	**27,000**	–
Repayment of convertible notes (note 9)	**(39,375)**	–
Deferred financing fees	**(1,012)**	–
Cash flows used in financing activities	**(3,360)**	(36,964)
Net increase (decrease) in cash and cash equivalents during the period	**8,698**	(677)
Cash and cash equivalents, beginning of period	**–**	677
Cash and cash equivalents, end of period	**8,698**	–

See accompanying notes

Notes to Consolidated Financial Statements

April 3, 2004

1. NATURE OF OPERATIONS

Indigo Books & Music Inc. (the "Company" or "Indigo"), the nation'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 ten provinces in Canada, including 87 (March 29, 2003 – 88) superstores under the *Chapters*, *Indigo*, and *World's Biggest Book Store* names, as well as 167 (March 29, 2003 – 179) mall stores under the *Coles*, *SmithBooks*, *LibrairieSmith*, and *The Book Company* names. The Company operates *www.chapters.indigo.ca*, an e-commerce retail destination, which sells books, videos, DVDs, music and gifts. The Company also has 5 (March 29, 2003 – 6) university and college bookstores through Chapters Campus Bookstores Company, a joint partnership with Barnes and Noble College Bookstore's Canadian Division. The Company also operates seasonal kiosks in shopping malls across Canada through its Calendar Club of Canada Limited Partnership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its subsidiary companies. All significant intercompany balances and transactions have been eliminated on consolidation.

Inventories

Inventories are valued, using the retail inventory method, at the lower of cost and net realizable value less a normal profit margin.

Prepaid expenses

Prepaid expenses include pre-opening store costs, license fees and maintenance contracts. All costs associated with the opening of new stores are deferred and amortized over the respective store's first twelve months of operations. Other costs are amortized over the term of the contract.

Capital assets

Capital assets are recorded at cost and amortized over their estimated useful lives on a straight-line basis over the following periods:

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

Employee future benefits

The cost of pensions and other retirement benefits earned by employees is determined using the projected benefits method prorated on service and management's best estimate of expected plan investment performance, salary escalation, expected cost trends and retirement ages of employees. The discount rate used to determine the accrued bene-

fit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. For purposes of calculating the expected return on plan assets, those assets are valued at fair market value. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair market value of plan assets is amortized over the average remaining service life of active employees.

Deferred financing fees

Financing costs are deferred and amortized over the term of the respective indebtedness.

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 twelve-month expiry period. The fee revenue related to the issuance of a card is deferred and amortized into earnings over the expiry period, based upon historical sales volumes.

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.

Goodwill

Goodwill represents the excess of the cost over the value assigned to the net identifiable assets acquired at the date of acquisition. Goodwill is not amortized and is subject to annual review for impairment at the reporting unit level. Fair value is determined using the discounted cash flow method.

Joint ventures

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

Stock-based compensation plan

The Company has a stock-based compensation plan which is described in note 8 to the financial statements. Effective March 30, 2003, in accordance with the recommendations issued by the Canadian Institute of Chartered Accountants ("CICA"), the Company changed its method of accounting for stock options. 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 its vesting period. As a result of this change in accounting policy, which was applied prospectively, an expense was recorded for the 53-week period ended April 3, 2004 to reflect the fair value of stock options granted to employees and vested during the period. Any consideration paid by employees on exercise of stock options is credited to share capital.

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.

Foreign exchange

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 current foreign exchange rates with the resultant gains or losses included in earnings.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results may differ from those estimates.

Revenue recognition

The Company recognizes revenue when title passes to the customer. Revenue for retail customers is recognized at the point of sale and revenue for online customers is recognized when the product is shipped. Revenue from the gift card program is recognized as gift cards are redeemed. The Company reports its revenue net of sales discounts and returns.

Earnings (loss) per share

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

3. CAPITAL ASSETS

Capital assets consist of the following:

	April 3, 2004		March 29, 2003	
(thousands of dollars)	Cost	Accumulated amortization	Cost	Accumulated amortization
Furniture, fixtures and equipment	102,242	55,388	112,566	57,429
Computer equipment and development costs	61,673	42,301	48,338	38,385
Leasehold improvements	73,607	40,743	87,575	48,006
Equipment under capital lease	4,419	363	1,529	18
	241,941	138,795	250,008	143,838
Less accumulated amortization	138,795		143,838	
Net book value	103,146		106,170	

4. 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 and liabilities are as follows:

(thousands of dollars)	April 3, 2004	March 29, 2003
Current future tax assets		
Deferred contract fee	45	93
Reserves and allowances	3,894	3,919
Net current future tax assets	3,939	4,012

(thousands of dollars)	April 3, 2004	March 29, 2003

Non-current future tax assets		
Tax loss carryforwards	**64,046**	66,900
Share issue costs	**1,264**	1,604
Book amortization in excess of cumulative eligible capital deduction	**628**	795
Accrued benefit obligations	**116**	291
Book amortization in excess of capital cost allowance	**25,046**	13,952
Non-current future tax assets before valuation allowance	**91,100**	83,542
Valuation allowance	**(78,460)**	(76,871)
Net non-current future tax assets	**12,640**	6,671

Significant components of the income tax expense attributable to continuing operations are as follows:

(thousands of dollars)	**53-week period ended April 3, 2004**	52-week period ended March 29, 2003
Current income tax expense	**810**	600
Future income tax expense (benefit) relating to origination and reversal of temporary differences	**(2,062)**	301
Increase in valuation allowance	**1,589**	6,667
Future income tax expense (benefit) relating to utilization (recognition) of loss carryforwards	**3,824**	(7,435)
Future income tax expense relating to utilization of tax losses acquired	**5,962**	1,300
Adjustment to future income tax assets resulting from reduction (increase) in substantively enacted tax rates	**(9,247)**	467
Total income tax expense	**876**	1,900

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

(thousands of dollars)	**53-week period ended April 3, 2004**	52-week period ended March 29, 2003
Tax at combined federal and provincial tax rates	**1,904**	1,280
Tax effect of expenses not deductible for income tax purposes	**315**	125
Future income tax benefit resulting from recognition of loss carryforwards	**–**	(8,434)
Increase in valuation allowance	**1,589**	6,667
Tax effect of utilization of tax losses acquired	**5,962**	1,300
Large Corporations Tax	**600**	600
Adjustment to future income tax assets resulting from reduction (increase) in substantively enacted tax rates	**(9,247)**	467
Other, net	**(247)**	(105)
	876	1,900

As at April 3, 2004, the Company has combined non-capital loss carryforwards of approximately $179.3 million for income tax purposes that expire as follows if not utilized:

(thousands of dollars)	April 3, 2004
2005	7,666
2006	50,562
2007	77,953
2008	18,406
2009	18,212
2010	2,582
2011	3,899
	179,280

Included in the total non-capital loss carryforwards are unused tax losses acquired of approximately $49 million, the benefit of which will be applied to reduce goodwill when they are utilized.

5. GOODWILL

The Company adopted the new recommendations relating to goodwill under CICA Handbook Section 3062 effective March 31, 2002. In accordance with the transitional provisions of Section 3062, the Company was required to complete a two step transitional impairment test to identify if there was impairment to goodwill at March 31, 2002. The Company completed this test on its two reporting units (Retail and Online) using the discounted cash flow method, and determined that the carrying value of goodwill for the Online reporting unit exceeded its fair value by $4.8 million. The resulting impairment loss was recognized as a change in accounting policy and charged to opening retained deficit as at March 30, 2002. The Company performed its annual impairment test on March 29, 2003 and April 3, 2004 and determined that there was no further impairment of goodwill.

As part of the purchase price allocation for the acquisition of Indigo Books & Music, Inc. ("Old Indigo"), no future income tax asset was recognized for the unused tax losses of Old Indigo that existed at the date of acquisition. When unused tax losses acquired in a business combination that are not recognized as a future tax asset by the acquirer at the date of the acquisition are subsequently recognized by the acquirer, the benefit is applied to reduce any unamortized goodwill related to the acquisition. For the period ended April 3, 2004, the Company utilized a portion of the acquired unused tax losses which were not recognized and, accordingly, reduced goodwill by $6.0 million (March 29, 2003 – $1.3 million).

6. BANK INDEBTEDNESS AND LONG-TERM DEBT

In the fourth quarter of fiscal 2004, the Company repaid $31.0 million of long-term debt pursuant to its credit agreement. On April 2, 2004, the Company re-negotiated its credit agreement with its bank. The new credit agreement provides for the following:

(i) A revolving line of credit of up to $90.0 million, based on defined levels of inventory and accounts receivable, bearing interest, at the Company's option, at either the bank's prime rate or the bankers' acceptance rate plus 0.5% to 2.5% depending on certain financial ratios. At April 3, 2004, the Company's interest rate was the bankers' acceptance rate plus 1.75%. The Company has an annual cleandown provision on this revolving line of credit. The Company is required to reduce the amount outstanding under this facility to $25.0 million or less for a period of 30 consecutive days in fiscal 2005, and to nil in subsequent years. The revolving line of credit is to be repaid in full and cancelled on July 31, 2007. As at April 3, 2004, $53.0 million was drawn against this facility.

(ii) Long-term debt of $49.0 million bearing interest at the same rates as the revolving line of credit. The facility is to be repaid as follows: $12.0 million on December 31, 2004, $12.0 million on December 31, 2005, $12.0 million on December 31, 2006, and $13.0 million on July 31, 2007.

The revolving line of credit and long-term debt are collateralized by a first-ranking security over all the property and assets of the Company, and are dependent upon the continued compliance with certain financial covenants.

On April 2, 2004, the Company entered into an interest rate derivative agreement to fix the interest rate on its long-term debt. The agreement involves the exchange of 30-day bankers' acceptance floating interest rates for fixed interest rates on a notional amount of $49.0 million. There are reductions in the notional amounts of the derivative agreement that coincide with principal repayments of the underlying long-term debt. The fixed interest rate on the notional amount is 3.06%. The agreement expires on July 31, 2007.

The Company has entered into capital lease agreements for certain equipment. The obligations under these capital leases amounted to $3.5 million, of which $1.2 million is included in the current portion of long-term debt. These capital leases have an average interest rate of 12% and an average term of 42 months.

As at April 3, 2004, the Company has outstanding letters of credit totalling $0.9 million (March 29, 2003 – $1.2 million).

7. ACCRUED BENEFIT OBLIGATIONS

The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are detailed below. In March 2004, the Company amended the terms of its pension plan to effect a wind up with an effective date of June 30, 2004. The plan was in a deficit position of $0.3 million as of April 3, 2004. The Company will fund this deficit prior to final settlement of the plan. As a result of the amendment of the plan, the Company recorded a net curtailment gain of $0.9 million. The Company intends to replace the plan with a Company sponsored RRSP/DPSP during fiscal 2005.

(thousands of dollars)	April 3, 2004	March 29, 2003
Accrued benefit obligations, beginning of period	**12,319**	10,375
Current service cost	**1,323**	1,210
Interest on accrued benefits	**862**	774
Benefits paid	**(762)**	(1,068)
Experience loss	**979**	1,028
Curtailment gain	**(2,721)**	–
Balance, end of period	**12,000**	12,319
Fair value of plan assets, beginning of period	**9,527**	9,003
Remeasurement	**(156)**	–
Employees' and employers' contributions	**1,226**	1,749
Interest on plan assets	**672**	656
Benefits paid	**(762)**	(1,068)
Experience gain (loss)	**1,165**	(813)
Fair value of plan assets, end of period	**11,672**	9,527
Funded status – plan deficit	**328**	2,792
Unamortized loss	**–**	(1,906)
Accrued benefit obligations	**328**	886

The following is a summary of the significant weighted average actuarial assumptions used in measuring the Company's accrued benefit obligations:

	April 3, 2004	March 29, 2003
Weighted average assumptions		
Discount rate	**6.00%**	6.50%
Expected long-term rate of return on plan assets	**7.00%**	7.00%
Rate of compensation increase	**4.00%**	4.00%

The Company's net benefit plan expense is as follows:

(thousands of dollars)	April 3, 2004	March 29, 2003
Current service cost	**797**	670
Interest on accrued benefits	**862**	774
Interest on plan assets	**(672)**	(656)
Amortization of loss	**49**	–
Curtailment gain	**(894)**	–
Net benefit plan expense	**142**	788

8. SHARE CAPITAL

Share capital consists of the following:

(thousands of dollars)

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

Issued (common shares)

	April 3, 2004		March 29, 2003	
	Number of shares	Amount $ (thousands)	Number of shares	Amount $ (thousands)
Balance, beginning of period	**23,964,752**	**193,426**	16,985,106	163,505
Issued during the period				
Issued for cash (net of expenses and future income taxes)	–	–	6,979,646	29,921
Balance, end of period	**23,964,752**	**193,426**	23,964,752	193,426

On August 26, 1996, the Company established an employee stock option plan (the "Plan") for key employees. The number of common shares reserved for issuance under the Plan is 1,728,500. One quarter of the options granted prior to May 21, 2002 are exercisable on the date of issue with the remainder exercisable in equal installments on the anniversary date for the next three years. All grants of options 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 installments on the anniversary date over the next four years.

Effective March 30, 2003, the Company elected to adopt the new recommendations issued by the CICA relating to stock-based compensation on a prospective basis. In accordance with the new standard, the Company changed its

method of accounting for stock options from the intrinsic value method to the fair value method, which estimates the fair value of the stock options granted on the date of grant and expenses this value over the vesting period. As a result of this change in accounting policy, an expense of $0.1 million was recorded for the 53-week period ended April 3, 2004 with the offset recorded in contributed surplus. Any consideration paid by employees on exercise of stock options is credited to share capital.

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 assumptions during the periods presented:

	53-week period ended April 3, 2004	52-week period ended March 29, 2003
Risk-free interest rate	**4.6%**	4.5%
Expected volatility	**15.1%**	40.3%
Expected time until exercise	**4 years**	4 years
Expected dividend yield	**0.0%**	0.0%

On a pro forma basis, if the Company had used the fair value method of accounting for stock options issued before March 29, 2003, the Company's net earnings would have decreased to the amounts listed below. The pro forma impact of accounting for these options at fair value will continue to be disclosed until the last of these options vest in 2008. In fiscal 2003, the Company's basic and diluted earnings per common share appear to remain constant due to rounding.

Pro Forma Earnings (thousands of dollars, except per share data)	**53-week period ended April 3, 2004**	52-week period ended March 29, 2003
Net earnings – reported	**4,346**	1,425
Net earnings – pro forma	**4,018**	1,239
Basic net earnings per common share – reported	**$0.18**	$0.06
Basic net earnings per common share – pro forma	**$0.17**	$0.06
Diluted net earnings per common share – reported	**$0.18**	$0.06
Diluted net earnings per common share – pro forma	**$0.17**	$0.06

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

	April 3, 2004		March 29, 2003	
	Number #	**Weighted average exercise price $**	Number #	Weighted average exercise price $
Outstanding options, beginning of period	**1,003,629**	**10.36**	382,633	30.83
Granted	**473,500**	**4.66**	863,000	5.82
Forfeited	**(313,556)**	**9.36**	(178,365)	29.72
Expired	**(29,150)**	**28.00**	(63,639)	17.60
Outstanding options, end of period	**1,134,423**	**7.81**	1,003,629	10.36
Options exercisable, end of period	**226,696**		147,384	

Options outstanding and exercisable

	April 3, 2004				
	Outstanding			Exercisable	
Range of exercise prices $	Number #	Weighted average exercise price $	Weighted average remaining contractual life (in years)	Number #	Weighted average exercise price $
4.00 – 5.99	705,000	4.65	9.1	66,000	4.58
6.00 – 9.99	342,245	6.56	8.2	93,098	6.70
10.00 – 27.99	8,882	15.24	2.9	8,278	14.65
28.00 – 33.99	51,577	31.31	2.9	46,745	31.56
34.00 – 64.00	26,719	59.21	7.4	12,575	56.65
4.00 – 64.00	1,134,423	7.81	8.5	226,696	14.27

On October 31, 2002, the Company established a Directors' Deferred Stock Unit Plan. Under this plan, directors will receive their annual retainer fees and other board-related compensation in the form of deferred stock units ("DSUs"). The number of shares reserved for issuance under this Plan is 250,000. The Company issued 36,565 DSUs during the period ended April 3, 2004. The value of the outstanding DSUs as at April 3, 2004 was $0.3 million and was recorded in contributed surplus.

In calculating diluted per share amounts under the treasury stock method, the numerator remains unchanged from the basic per share calculations as the assumed exercise of the Company's stock options do not result in an adjustment to income. The Company's convertible notes were anti-dilutive and therefore not included in the March 29, 2003 earnings per share calculations.

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

(in thousands)	April 3, 2004	March 29, 2003
Weighted average number of shares outstanding, basic	23,965	22,513
Effect of dilutive securities		
– stock options	48	–
– convertible notes	–	–
Weighted average number of shares outstanding, diluted	**24,013**	22,513

9. CONVERTIBLE NOTES

On April 3, 2004, the Company paid $39.4 million to redeem its outstanding Series I and II subordinated convertible notes at face value plus accrued interest.

The Series I notes were originally issued by Old Indigo with a face value of $10.0 million, an interest rate of 8% per annum, and a maturity date of June 30, 2005. The Series II notes were originally issued by Old Indigo with a face value of $20.0 million, an interest rate of prime plus 2% per annum, and a maturity date of June 30, 2005.

When the Company acquired Old Indigo, the Old Indigo Series I and II subordinated convertible notes became convertible into common shares of the Company on the basis of one common share for each $18.93 of principal and interest owing. At the date of acquisition, the fair value of the subordinated convertible notes was allocated between a liability and equity component. The recorded amount of the liability component was being accreted to its face value over the term of the notes as interest expense. The holder's conversion option was treated as a separate element within equity.

Upon settlement, the Company again computed the fair value of the equity and liability components of the convertible notes. The Company recorded the difference between the fair value and the book value of the liability as an interest expense of $3.5 million and the difference between the fair value and book value of the equity component of $0.4 million was credited to retained earnings.

10. RESTRUCTURING COSTS

In fiscal 2002, the Company recorded a $40.3 million restructuring charge as a result of the merger between Chapters Inc. and Old Indigo.

As at April 3, 2004, approximately $8.1 million of the restructuring costs remain unpaid and have been included in accounts payable and accrued liabilities (March 29, 2003 – $10.6 million). This provision includes estimates for legal fees, commission and disposal costs for 8 stores that were identified as overlapping sites at the time of the merger and were not subleased as at the end of this fiscal year. The Company has each of these stores listed with an outside realtor who is actively looking for new tenants to lease these properties. The Company evaluates any proposals that are received at the time of receipt. The completion of these transactions cannot be reasonably determined as they depend on external market conditions. When the Company subleases a property, the Company expenses the costs incurred to sublease the property and reduces the provision accordingly. During the current fiscal year, the Company paid $2.5 million in restructuring costs and charged this amount against the provision.

11. JOINT VENTURES

In August 1999, a joint venture was formed with Barnes and Noble College Bookstore's Canadian Division to manage the Company's Campus Bookstore division. Under the terms of the agreement, the Company contributed assets at a net book value of $4.6 million, consisting primarily of inventory, in return for a promissory note of $2.1 million and a 51% equity interest in the newly formed company, Chapters Campus Bookstores Company. On August 21, 2003, the promissory note was repaid in full to the Company.

In addition, the Company participates in a joint venture through a 50% equity ownership in the Calendar Club of Canada Limited Partnership to sell calendars through temporary kiosks during the Christmas season.

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

	Total		Proportionate share	
(thousands of dollars)	**2004**	2003	**2004**	2003
Current assets	**8,412**	13,959	**4,246**	7,066
Long-term assets	**1,741**	2,496	**873**	1,260
Current liabilities	**2,943**	4,125	**1,484**	2,096
Revenue	**40,045**	44,921	**20,130**	22,659
Expenses	**35,144**	38,488	**17,693**	19,438
Net income	**4,901**	6,433	**2,437**	3,221
Cash flows provided by (used in)				
Operating activities	**11,462**	4,240	**5,746**	2,117
Investing activities	**(586)**	(369)	**(293)**	(184)
Financing activities	**(2,129)**	225	**(1,086)**	113
Net cash flow	**8,747**	4,096	**4,367**	2,046

12. CONSOLIDATED STATEMENTS OF CASH FLOWS

Supplemental cash flow information:

(thousands of dollars)	53-week period ended April 3, 2004	52-week period ended March 29, 2003
Interest paid	**12,520**	10,292
Income taxes paid (recovered)	**(670)**	279
Assets acquired under capital lease	**2,890**	1,529

13. COMMITMENTS AND CONTINGENCIES

(a) Operating leases

The Company has operating lease commitments in respect of its stores, support office premises and certain equipment. The leases expire at various dates between 2004 and 2016 and are subject to renewal options in certain cases. Annual store rent consists of a base amount plus additional payments based on store sales. The base rent payable under present leases is as follows:

(thousands of dollars)	
2005	56,774
2006	55,127
2007	52,054
2008	46,825
2009	36,796
Thereafter	73,502
	321,078

(b) Legal claims

In fiscal 2003, a former supplier filed a claim in the amount of $8.4 million against the Company. The Company is of the view that the claim is without merit and lacks a factual or legal foundation and the Company intends to vigorously defend the claim. The final outcome of the claim and the amount of losses, if any, cannot be predicted with certainty at this time, however, it is the opinion of management that the resolution of the claim will not have a material adverse effect on the Company's financial position.

In the normal course of business, the Company becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2004 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

14. FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage risks of its foreign currency and interest rate exposures. The Company enters into foreign exchange derivative agreements to hedge future purchases of U.S. denominated goods and services. The Company also uses interest rate swap agreements to manage the fixed and floating interest rate mix of the Company's total debt portfolio. Counterparty credit risk is considered to be negligible as the Company only deals with highly rated financial institutions.

The fair value of financial instruments is the estimated amount the Company would receive or pay to terminate the contracts at the reporting date. 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, income taxes payable, bank indebtedness and accounts payable and accrued liabilities approximate their carrying values given their short-term maturities.

(ii) The fair values 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.

(iii) The fair values of interest rate derivatives are estimated by discounting cash payments of the derivatives at market rates for derivatives of the same remaining maturities.

At this time, the Company does not intend to terminate the interest rate swap agreement and therefore does not anticipate any impact on earnings arising from the differences between book value and fair value. The Company entered into an interest rate swap agreement on April 2, 2004 and the mark-to-market value of the interest rate swap was zero as at April 3, 2004.

The Company did not have any foreign currency derivative agreements in place as at April 3, 2004.

15. RELATED PARTY TRANSACTIONS

As at April 3, 2004, the Company had no outstanding convertible notes with related parties (March 29, 2003 – $37.6 million). During the 53-week period ended April 3, 2004, interest expense related to the convertible notes amounted to $6.8 million (March 29, 2003 – $3.0 million). Related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. SUBSEQUENT EVENT

Effective April 4, 2004, the Company changed its accounting policy with respect to inventory valuation. Previously, the Company used the retail inventory method (see Note 2). Under the new method, inventory will be valued at the lower of cost, determined on a moving average cost basis, and net realizable value. The new accounting policy will be applied on a prospective basis since the necessary financial data for retroactive adoption is not reasonably determinable.

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

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

Doug Caldwell
Chief Technology Officer

Susan Croft
Executive Vice President, Human Resources

Victor DiRisio
Executive Vice President, Supply Chain

Peter Drutz
Executive Vice President, Retail

Jonathan Ehrlich
Senior Vice President, Online & Alternative Channels

Kathleen Flynn
General Counsel

Deirdre Horgan
Executive Vice President, Marketing

David Margolis
President & Chief Operating Officer

Jim McGill
Chief Financial Officer

Heather Reisman
Chair & Chief Executive Officer

BOARD OF DIRECTORS

Bruce Birmingham
Corporate Director

Jonathan Deitcher
Investment Advisor
RBC Investments

James Hall
Corporate Director & Advisor

Senator Michael Kirby
Senator
The Senate of Canada

Robert Lantos
President
Serendipity Point Films

Jack Lawrence
Chairman
Lawrence & Company Inc.

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

Gerald Schwartz
Chairman, President & CEO
Onex Corporation

Nigel Wright
Managing Director
Onex Corporation

Summary of Financial Information

For the years ended (millions of dollars, except per share data)	April 3, 2004	March 29, 2003	March 30, 2002	March 31, 2001	April 1, 2000
SELECTED INCOME STATEMENT INFORMATION					
Revenues					
Superstores	**548.2**	528.1	485.8	408.9	376.3
Mall Stores	**169.4**	174.0	183.8	195.2	217.8
Online	**52.1**	39.1	34.7	51.1	38.7
Other	**36.0**	38.0	31.4	31.3	27.5
Total Revenues	**805.7**	779.2	735.7	686.5	660.3
EBITDA (Operating earnings)	**44.4**	42.0	37.0	(43.3)	(8.9)
EBIT	**20.1**	18.1	5.6	(73.0)	(34.5)
Restructuring and take-over costs	**–**	–	40.3	30.0	–
Dilution gain on sale of Chapters Online Inc. & Pegasus Wholesale	**–**	–	–	–	41.1
Net earnings (loss) per common shares	**0.18**	0.06	(3.52)	(7.33)	1.54
SELECTED BALANCE SHEET INFORMATION					
Working capital	**(36.0)**	(27.6)	(40.8)	(4.6)	88.3
Total assets	**400.7**	394.8	439.8	388.8	495.3
Long-term debt (including current portion)	**52.4**	85.6	112.1	54.0	54.0
Shareholders' equity	**93.7**	90.4	63.8	91.1	165.2
Long-term debt / (long-term debt + shareholders' equity)	**0.36:1**	0.49:1	0.64:1	0.37:1	0.25:1
Weighted average number of shares outstanding	**23,964,752**	22,512,643	13,629,541	11,526,705	11,133,222
Common shares outstanding at end of period	**23,964,752**	23,964,752	16,985,106	12,289,588	11,358,429
STORE OPERATING STATISTICS					
Number of stores at end of period					
Superstores	**87**	88	90	77	70
Mall Stores	**167**	179	187	204	231
Campus Bookstores	**5**	6	6	6	4
Selling square footage at end of period (in thousands)					
Superstores	**2,105**	2,123	2,164	1,883	1,751
Mall Stores	**451**	476	496	536	604
Campus Bookstores	**10**	38	38	38	35
Comparable store sales					
Superstores	**2.7%**	5.3%	1.1%	(1.6%)	(3.1%)
Mall Stores	**(0.1%)**	(0.2%)	3.7%	(3.0%)	(4.0%)
Sales per selling square foot					
Superstores	**260**	249	233	229	244
Mall Stores	**376**	365	358	352	358

Investor Information

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STOCK LISTING

Toronto Stock Exchange

TRADING SYMBOL

IDG

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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 their Company as well as meet with its directors and officers.

Indigo's Annual Meeting will be held on September 14, 2004, 10:00 a.m. at the Toronto Stock Exchange Conference Centre, 130 King Street West, Toronto, Ontario, Canada.

Shareholders are encouraged to attend and guests are welcome.

Une traduction française de ce document est disponible sur demande.

Our Guiding Principles

- We believe that great companies are built over time through the efforts of talented, committed people. We will take the time to build this Company consistent with our beliefs and guiding principles, knowing that the result will be a great and lasting enterprise with the potential for sustained success.
- Quality matters in everything we do. We are always striving to be the very best we know how to be, understanding that in the process we will make some mistakes. From the latter will likely come our best learning.
- Serving and satisfying customers will be our hallmark in all our stores. It is our number one priority. Everyone working with our Company needs to understand how the implications of their actions affect customer satisfaction.
- We believe that in the Information Era the only sustainable competitive advantage is people, therefore everything else can be duplicated. People and organization development are also our priorities. All of our actions will reinforce our belief in the importance and value of our people.
- Profitability and value enhancement are essential to long-term success and must be the focus, in an appropriate manner, at all levels of our organization.
- All those who create value should feel fairly rewarded for their contribution – employees, suppliers and investors.
- We have a responsibility to be respectful of, and to add value to, the communities in which we operate.