

INDIGO BOOKS & MUSIC INC.

(the “Corporation”)

Mandate of the Board of Directors

1. PURPOSE

The purpose of this Mandate is to clarify and to define the boundaries between the roles and responsibilities of management and the Board of Directors of the Corporation (the “Board”). The Board does not manage the Corporation; rather it delegates this function to management, and then supervises and evaluates management’s execution of Board approved strategies and business plans.

2. PRINCIPAL DUTIES OF THE BOARD

(a) General

The Board must be fully informed of the Corporation’s affairs, be actively engaged in the development of the Corporation’s strategic direction and must supervise how that direction is conducted by management. In doing so, the Board is responsible to appoint a competent executive management team. The Board will oversee and monitor the management of the business of the Corporation by that team.

The Corporation will maximize its wealth and well-being through thoughtful, independent business decisions. Through an appropriate system of corporate governance and financial controls, the Board will ensure fair financial reporting to the public, as well as ethical and legal corporate conduct. To ensure that the decisions and actions of management serve the interests of the Corporation, the Board will carry out its Mandate through the following committees of the Board: the Audit Committee, the Human Resource and Compensation Committee, and the Corporate Governance Committee. The Board may also appoint other committees from time to time.

(b) Satisfy Itself as to the Integrity of Management

The Board will satisfy itself as to the integrity of the chief executive officer (“CEO”) and senior management of the Corporation through monitoring compliance with the Corporation’s Code of Business Conduct (the “Code”) and its Whistleblower Policy. The Board will satisfy itself that the CEO and senior management create a culture of integrity throughout the organization by overseeing and monitoring management to ensure a culture of integrity is maintained.

(c) Adoption of a Strategic Planning Process

- The Board will adopt a strategic planning process and review and approve annually a corporate strategic plan for the operating subsidiaries of the Corporation which takes into account, among other things, industry and other trends, product strategies, new product developments, major new business, capital expenditures, specific problem areas, action plans, and the opportunities and risks of the business.
- The Board will review operating and financial performance results relative to established strategy, budgets and objectives.
- The Board will monitor the progress of the Corporation against the goals addressed in the strategic plan.

(d) Identification of Principal Risks and Implementing Managing Systems

- The Board will identify and review with management the principal business risks to the Corporation. The Board will ensure that appropriate procedures are implemented to monitor and mitigate those risks.
- The Board will ensure that effective systems are in place to monitor the integrity of the Corporation’s internal controls and management information systems.

- The Board will confirm that management processes are in place to address and comply with applicable corporate, securities and other compliance matters, as well as with applicable laws and regulations.
- The Board will confirm and monitor that processes are in place to comply with the Corporation's by-laws, Code of Business Conduct and Whistleblower Policy.

(e) Succession Planning (Appointment, Training and Monitoring Management)

The Board delegates authority to the CEO for the overall management of the Corporation. This includes strategy and operations to ensure the Corporation's long term success. To ensure the integrity of the CEO, the Board will:

- approve the Human Resources and Compensation Committee's position description for the CEO. This position description will delineate management's responsibilities and the corporate goals and objectives that the CEO is responsible for meeting;
- assess the performance of the CEO against a set of mutually agreed corporate objectives through a process that includes a comparison of the CEO's performance against the duties outlined in the CEO position description and review of the CEO's performance by the Board and the Human Resources and Compensation Committee and;
- approve CEO compensation as determined by the Human Resources and Compensation Committee, through a process described in its charter;

In meeting its responsibility for ensuring succession planning, the Board will satisfy itself that management possesses the necessary level of integrity, skill and experience. In doing so, the Board will:

- establish boundaries between Board and management responsibilities and establish limits of authority delegated to management. In doing so, the Board will decide how engaged it wants to be in influencing management's decisions and the Corporation's direction. The CEO and the directors will agree amongst themselves which level of Board engagement best fits the Corporation;
- appoint corporate Officers and approve their compensation, based on level and amount of responsibility, as recommended by the Human Resources and Compensation Committee;
- monitor the performance of the CEO against corporate objectives directed at maximizing the financial value of the Corporation;
- establish a process to adequately provide for CEO succession

(f) Communications Policy

The Board will confirm that management has established a system for corporate communications to shareholders and the public, including processes for consistent, transparent and timely public disclosure. In doing so, the Board will:

- adopt a communications and disclosure policy relating to, among other matters, the confidentiality of the Corporation's business information and conflicts of interest;
- ensure the Corporation maintains the communications systems to effectively communicate with its stakeholders. These programs include the corporate disclosure policy and Whistleblower Policy, and
- assure themselves that information and reporting systems exist in the Corporation that are reasonably designed to provide timely accurate information sufficient to allow themselves and management to reach informed decisions.

(g) Approach to Corporate Governance and Governance Guidelines

Transparency, accountability and integrity are not just key elements of good governance, but are fundamental values to the Corporation. To ensure that the Corporation continues to uphold a high standard in governance practices, the Board will:

- appoint a Corporate Governance Committee composed of directors who meet the criteria for independence contain in applicable laws and stock exchange rules and regulations;
- clearly articulate what is expected from a director by developing a position description for directors, the Chair, the CEO and the chair of each Board committee.
- review and assess the adequacy of the Audit Committee charter on an annual basis.
- review and asses the adequacy of the Corporate Governance Committee charter on an annual basis.

3. BOARD ORGANIZATION

The Corporation will only recruit individuals who have sufficient time and energy to devote to the task of being a director.

(a) Qualifications

The Board will determine Board member qualifications. In doing so, the Board will first determine the competencies and skills the Board as a whole is expected to possess. The Board will then determine what competencies and skills existing directors have, to ensure the capabilities and qualities of each director contribute to the Board's role in the Corporation.

(b) Composition

The Board will consist of directors who represent diverse personal experiences and backgrounds, particularly amongst the independent directors. At a minimum, each director shall have demonstrated the highest personal and professional integrity; significant achievement in his or her field; experience and expertise relevant to the Corporation's business; a reputation for sound and mature business judgment; the commitment to devote the necessary time and effort in order to conduct his or her duties effectively; and, where required, financial literacy.

(c) Size

The Corporation's articles permit a maximum of 20 directors. To facilitate effective decision-making, the Board believes that the appropriate size of the Board is in the range of 8 to 12 directors.

(d) Independent Directors

The Board will ensure that the Board is composed of a majority of independent directors.

4. NOMINATION OF DIRECTORS

Although directors may be nominated to bring special expertise or a point of view to Board deliberations, they are not chosen to represent a particular constituency. The best interests of the Corporation must be paramount at all times. To ensure this, the Board will:

- appoint a Corporate Governance Committee composed of independent directors; and
- confirm a formal process for selecting directors by the Corporate Governance Committee.

5. BOARD INDEPENDENCE

To promote the effective functioning of the Board and its committees, the Board will:

- establish committees composed of independent directors and approve their respective charters and the limits of authority delegated to each committee; and
- ensure that, at the Corporation's expense, the Board and its committees may retain outside legal and other experts where reasonably required to assist and advise the Board and committees in carrying out their duties and responsibilities.

6. EVALUATION

The Board will establish appropriate processes for the regular evaluation of the effectiveness and performance of the Board, the Board's mandate, Board committees, the charters of each Board committee, individual directors and the position descriptions applicable to each individual director.

7. BOARD COMPENSATION

The Board will review the adequacy and form of directors' compensation to ensure it realistically reflects the responsibilities and risks involved in being a director. Therefore, the Board will:

- appoint a Corporate Governance Committee composed entirely of independent directors; and
- approve the Corporate Governance Committee's process and determination of directors' compensation. This process is outlined in the Corporate Governance Committee charter.

8. ETHICAL BUSINESS CONDUCT

To encourage and promote a culture of ethical business conduct in the Corporation, the Board will adopt a Code of Business Conduct and a Whistleblower Policy (the "Code") for directors, officers and employees, monitor compliance with that Code and make the Code publicly available.

9. MEASURES FOR RECEIVING FEEDBACK FROM SECURITY HOLDERS

Interested investors and analysts may, after all significant public announcements, including the release of interim and annual financial information, discuss with Senior Officers the impact on the Corporation of such information. The CEO and the Chief Financial Officer are available to discuss matters of concern to shareholders. They can be reached at:

Indigo Books & Music Inc.
tel: (416) 364-4499
fax: (416) 640-8922

10. BOARD'S EXPECTATION OF MANAGEMENT

The Board expects management to act in the best interests of the Corporation. To this end, management will uphold the highest standards of ethical behavior, expressed by the values set out in the Corporation's Code of Business Conduct and will create a culture of integrity throughout the Corporation. Management is expected to strive to enhance the financial value and the long term sustainability of the Corporation.