Indigo Books & Music Inc.
Notice of Annual Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of Indigo Books & Music Inc. (the "Corporation") will be held at The Hyatt Regency, 370 King Street West, Toronto, Ontario, on the 5th day of July, 2011, commencing at 10:00 a.m. (Toronto time), for the following purposes:

1. to receive the financial statements of the Corporation for the fiscal year ended April 2, 2011, together with the report of the auditor on the financial statements;

2. to elect directors for the ensuing year;

3. to appoint an auditor for the ensuing year and to authorize the directors to fix the remuneration to be paid to the auditor; and

4. to transact such other business as may properly come before the meeting or any adjournment of the meeting.

DATED at Toronto this 31st day of May, 2011.

By Order of the Board of Directors

Kay Brekken
Chief Financial Officer

If you are not able to be present at the meeting, please exercise your right to vote either by (a) signing and returning the form of proxy to Indigo Books & Music Inc. c/o CIBC Mellon Trust Company, at P.O. Box 721, Agincourt, ON M1S 0A1, Facsimile: (416) 368-2502 so as to arrive not later than the 10:00 am (Toronto Time) on June 30, 2011 or, if the meeting is adjourned, 48 hours (excluding Saturdays and holidays) before any adjourned meeting, or (b) by completing the request for voting instructions in accordance with the directions provided.

Indigo Books & Music Inc.
Management Information Circular

Dated May 31, 2011

SOLICITATION OF PROXIES AND VOTING INSTRUCTIONS

The information contained in this management information circular is furnished in connection with the solicitation of proxies from registered owners of common shares of Indigo Books & Music Inc. (the "Company", "Corporation," "Indigo," "we," "our" and "us," as the context requires) (the "Shares") (and of voting instructions in the case of nonregistered owners of Shares) to be used at the annual meeting of shareholders of the Corporation to be held on the 5th day of July, 2011, at 10:00 a.m. (Toronto time) at the The Hyatt Regency, 370 King Street West, Toronto, Ontario, Canada and at all adjournments of the meeting, for the purposes set forth in the accompanying notice of meeting. It is expected that the solicitation will be made primarily by mail, but proxies and voting instructions may also be solicited personally by our employees. **The solicitation of proxies and voting instructions by this circular is being made by or on behalf of our management.** The total cost of the solicitation of proxies will be borne by us. The information contained in this circular is given as at May 31, 2011, except where otherwise noted.

REGISTERED OWNERS

If you are a registered owner of Shares, you may vote in person at the meeting or you may appoint another person to represent you as proxyholder and vote your Shares at the meeting. If you wish to attend the meeting, do not complete or return the enclosed form of proxy because you will vote in person at the meeting. Please register with the transfer agent, CIBC Mellon Trust Company, when you arrive at the meeting.

Appointment of Proxies

If you do not wish to attend the meeting, you should complete and return the enclosed form of proxy. The individuals named in the form of proxy are representatives of our management and are directors and officers of the Corporation. **You have the right to appoint someone else to represent you at the meeting.** If you wish to appoint someone else to represent you at the meeting, insert that other person's name in the blank space in the form of proxy. The person you appoint to represent you at the meeting need not be a shareholder of the Corporation.

To be valid, proxies must be deposited with Indigo Books & Music Inc. either by using the enclosed return envelope or by mailing the proxy to Indigo Books & Music Inc., c/o CIBC Mellon Trust Company, at P.O. Box 721, Agincourt, ON M1S 0A1, Facsimile: (416) 368-2502 not later than the 10:00 am (Toronto Time) on June 30, 2011 or, if the meeting is adjourned, 48 hours, (excluding Saturdays and holidays) before any adjourned meeting.

Revocation

If you have submitted a proxy and later wish to revoke it you can do so by:

(a) completing and signing a form of proxy bearing a later date and depositing it with CIBC Mellon Trust Company as described above;

(b) depositing a document that is signed by you (or by someone you have properly authorized to act on your behalf): (i) at our registered office at 468 King Street West, Suite 500, Toronto, Ontario, Canada, M5V 1L8 at any time up to the last business day preceding the day of the meeting, or any adjournment of the meeting, at which the proxy is to be used; or (ii) with the chair of the meeting before the meeting starts on the day of the meeting or any adjournment of the meeting;

(c) electronically transmitting your revocation in a manner permitted by law, provided that the revocation is received: (i) at our registered office at 468 King Street West, Suite 500, Toronto, Ontario, Canada, M5V 1L8 at any time up to and including the last business day preceding the day of the meeting, or any adjournment of the meeting, at which the proxy is to be used; or (ii) by the chair of the meeting before the meeting starts on the day of the meeting or any adjournment of the meeting; or

(d) following any other procedure that is permitted by law.

Voting of Proxies

In connection with any ballot that may be called for, the management representatives designated in the enclosed form of proxy will vote or withhold from voting your Shares in accordance with the instructions you have indicated on the proxy and, if you specify a choice with respect to any matter to be acted upon, the Shares will be voted accordingly. **In the absence of any direction, your Shares will be voted by the management representatives FOR the election of directors and FOR the appointment of the auditor.**

The management representatives designated in the enclosed form of proxy have discretionary authority with respect to amendments to or variations of matters identified in the notice of meeting and with respect to other matters that may properly come before the meeting. At the date of this circular, our management knows of no such amendments, variations or other matters.

NON-REGISTERED OWNERS

If your Shares are registered in the name of a depository (such as The Canadian Depository for Securities Limited) or an intermediary (such as a bank, trust company, securities dealer or broker, or trustee or administrator of a self administered RRSP, RRIF, RESP or similar plan), you are a non-registered owner.

Only registered owners of Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. If you are a non-registered owner, you are entitled to direct how the Shares beneficially owned by you are to be voted or you may obtain a form of legal proxy that will entitle you to attend and vote at the meeting.

In accordance with Canadian securities law, we have distributed copies of the notice of meeting, this management information circular and the 2011 annual report (collectively, the “meeting materials”) to the intermediaries for onward distribution to non-registered owners who have not waived their right to receive them. Typically, intermediaries will use a service company (such as Broadridge Investor Communications Solutions) to forward the meeting materials to non-registered owners.

If you are a non-registered owner and have not waived your right to receive meeting materials, you will receive either a request for voting instructions or a form of proxy with your meeting materials. The purpose of these documents is to permit you to direct the voting of the Shares you beneficially own. You should follow the procedures set out below, depending on which type of document you receive.

A. Request for Voting Instructions.

If you do not wish to attend the meeting (or have another person attend and vote on your behalf), you should complete, sign and return the enclosed request for voting instructions in accordance with the directions provided. You may revoke your voting instructions at any time by written notice to your intermediary, except that the intermediary is not required to honour the revocation unless it is received at least seven days before the meeting.

If you wish to attend the meeting and vote in person (or have another person attend and vote on your behalf), you must complete, sign and return the enclosed request for voting instructions in accordance with the directions provided and a form of proxy will be sent to you giving you (or the other person) the right to attend and vote at the meeting. You (or the other person) must register with the transfer agent, CIBC Mellon Trust Company, when you arrive at the meeting.

OR

B. Form of Proxy.

The form of proxy has been signed by the intermediary (typically by a facsimile, stamped signature) and completed to indicate the number of Shares beneficially owned by you. Otherwise, the form of proxy is uncompleted.

If you do not wish to attend the meeting, you should complete the form of proxy in accordance with the instructions set out in the section titled "Registered Owners" above.

If you wish to attend the meeting, you must strike out the names of the persons named in the proxy and insert your name in the blank space provided. To be valid, proxies must be signed and deposited with Indigo Books & Music Inc. **c/o CIBC Mellon Trust Company, at P.O. Box 721, Agincourt, ON M1S 0A1, Facsimile: (416) 368-2502** not later than the 10:00 am (Toronto Time) on June 30, 2011, or, if the meeting is adjourned, 48 hours, (excluding Saturdays and holidays) before any adjourned meeting. You must register with the transfer agent, CIBC Mellon Trust Company, when you arrive at the meeting.

You should follow the instructions on the document that you have received and contact your intermediary promptly if you need assistance.

VOTING SHARES

On May 31, 2011, we had 25,158,540 Shares outstanding. Each holder of Shares of record at the close of business on June 1, 2011, the record date established for notice of the meeting, will be entitled to vote on all matters proposed to come before the meeting on the basis of one vote for each Share held.

PRINCIPAL HOLDERS OF VOTING SECURITIES

To the knowledge of our directors and officers, the only persons or companies who beneficially own or control or direct, directly or indirectly, securities of the Corporation carrying more than 10% of the voting rights attached to any class of outstanding voting securities are indicated below:

Name	Number and Class of Securities	Percentage of Class
Trilogy Retail Enterprises L.P.(1)	5,287,932 common shares	21.02%
Trilogy Investments L.P.(1)	7,740,235 common shares	30.77%

(1) Trilogy Retail Enterprises L.P. and Trilogy Investments L.P. are controlled by Mr. Schwartz. Mr. Schwartz and Ms. Reisman, assuming the exercise of all options owned or controlled by them, own or control 15,316,865 common shares or 60.88% of the class, on a fully diluted basis.

ELECTION OF DIRECTORS

The number of directors to be elected at the meeting is twelve. The management representatives designated in the enclosed form of proxy intend to vote **FOR** the election as directors of the proposed nominees whose names are set out below. All of the nominees are now directors and have been directors since the dates indicated below. Management does not contemplate that any of the proposed nominees will be unable to serve as a director but, if that should occur for any reason before the meeting, the management representatives designated in the enclosed form of proxy reserve the right to vote for another nominee at their discretion. Each director elected will hold office until the next annual meeting or until his or her successor is elected or appointed.

We have an Audit Committee, a Human Resources and Compensation Committee, and a Corporate Governance Committee. The members of these committees are indicated below.

Name and Province/State and Country of Residence	Major Positions with the Corporation and Significant Affiliates	Principal Occupation	Director Since	Ownership or Control Over Voting Securities and DSUs[(9)]
HEATHER REISMAN Ontario, Canada	Chair & Chief Executive Officer and Director	Chair & Chief Executive Officer of the Corporation	2001	98,391 common shares
BONNIE BROOKS Ontario, Canada	Director	President & CEO, the Bay, Hudson's Bay Company (diversified general merchandise retailer)	2009	3,917 DSUs
FRANK CLEGG[(1),(3),(4)] Ontario, Canada	Director	Chairman, Navantis Inc. (custom computer software application developer)	2005	20,853 DSUs
JONATHAN DEITCHER[(2)] Quebec, Canada	Director	Investment Advisor, RBC Investments (wealth management company)	2001	33,317 DSUs
MITCHELL GOLDHAR Ontario, Canada	Director	President and Chief Executive Officer, SmartCentres (commercial real estate development company)	2006	10,052 DSUs
JAMES HALL[(1),(2),(3),(5)] Ontario, Canada	Director	President & CEO, James Hall Advisors Inc. (Corporate Advisory Firm)	2001	52,683 DSUs
MICHAEL KIRBY[(1),(2),(3)] Ontario, Canada	Lead Director	Corporate Director Chairman of Mental Health Commission of Canada (non-profit organization created to focus national attention on mental health issues)	2001	66,124 DSUs
TEDFORD MARLOW[(6)] Connecticut, USA	President and Director	President, Indigo Books & Music Inc.	2010	1,103 DSUs
BRUCE MAU Illinois, USA	Director	Chief Creative Director, Cofounder, Bruce Mau Live (design and innovation studio)	2007	7,082 DSUs
ANNE MARIE O'DONOVAN[(3)] Ontario, Canada	Director	Executive Vice President and Chief Administration Officer, Scotia Capital (global corporate and investment banking company)	2009	3,344 DSUs
JOEL SILVER[(7)] Ontario, Canada	Director	President, Trilogy Growth (investment firm specializing in media, technology and retail opportunities)	2011	3,100 common shares
GERALD SCHWARTZ Ontario, Canada	Director	Chairman, Chief Executive Officer & President, Onex Corporation (diversified company)	2001	15,218,474 common shares[(8)]

(1) Member of Human Resources and Compensation Committee.
(2) Member of the Corporate Governance Committee.
(3) Member of Audit Committee.

(4) Mr. Clegg is the Technology Advisor to the Indigo Board of Directors and receives an annual retainer in respect of this role as shown in the Directors' Compensation Fee Schedule table on page 24 of this information circular. The Technology Advisor brings an extensive information technology background to the Board of Directors at a point in time when the oversight of IT governance has become an important responsibility for boards and audit committees.

(5) Mr. Hall was a director of Journal Register Company (a newspaper and multi-media news company) from August 2003 through March 2009. On February 21, 2009, while Mr. Hall was Chairman and Chief Executive Officer, the company filed a voluntary petition for relief under the U.S. Bankruptcy Code. The company emerged from bankruptcy on August 7, 2009.

(6) Mr. Marlow has been President of Indigo Books & Music Inc. since April 3, 2011. From June 2001 to June 2010, Mr. Marlow was the Global Brand President of Urban Outfitters, a specialty retailer based in Philadelphia, Pennsylvania, USA.

(7) Mr. Silver has been with Trilogy Growth since April 2011. From December 2003 through April 2011, Mr. Silver held the following positions at Indigo Books & Music Inc.: October 2009 through April 2011 – President; April 2007 through October 2009 – Chief Merchant; June 2005 through April 2007 – Executive Vice President, Print & Entertainment; December 2003 through June 2005 – Vice President, Print Procurement.

(8) Mr. Schwartz is the principal of Trilogy Retail Enterprises Inc., the general partner of Trilogy Retail Enterprises L.P. ("Trilogy"). Trilogy owns directly or indirectly 13,028,167 common shares, representing approximately 51.78% of the outstanding Shares. Ms. Reisman, who owns directly or indirectly, 98,391 common shares, is Mr. Schwartz' spouse.

(9) The terms of the deferred share units ("DSUs") are further discussed under the heading "Compensation of Directors" beginning on page 23 of this circular.

Summary of Board and Committee Meetings Held in Fiscal 2011

Type of Meeting	Number of Meetings
Board	6
Audit Committee	4
HR and Compensation Committee	3
Corporate Governance Committee	3
Total Number of Meetings Held	16

Summary of Attendance of Directors at Board and Committee Meetings in Fiscal 2011

Director	Board Meetings Attended	Committee Meetings Attended
Bonnie Brooks	6 of 6	n/a
Frank Clegg	6 of 6	6 of 7
Jonathan Deitcher	6 of 6	3 of 3
Mitchell Goldhar	5 of 6	n/a
James Hall	6 of 6	10 of 10
Michael Kirby	6 of 6	10 of 10
Robert Lantos(1)	1 of 1	n/a
Tedford Marlow(2)	2 of 2	n/a
Bruce Mau	5 of 6	n/a
Anne Marie O'Donovan	5 of 6	4 of 4
Heather Reisman	5 of 6	n/a
Gerald Schwartz	6 of 6	n/a

(1) Robert Lantos resigned from the Board of Directors effective May 1, 2010.

(2) Tedford Marlow was appointed to the Board of Directors effective November 9, 2010.

APPOINTMENT OF AUDITOR

The management representatives designated in the enclosed form of proxy intend to vote **FOR** the reappointment of Ernst & Young LLP as our auditor, to hold office until the next annual meeting of shareholders. Ernst & Young LLP has served as our auditor or our predecessors' auditor since 1994.

COMPENSATION DISCUSSION & ANALYSIS

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, with the objective of creating a great and lasting enterprise with the potential for sustained success.

Underlying Principles of Executive Compensation

Indigo's executive compensation program is based on the philosophy that a strong leadership team, whose interests are aligned with our strategic goals, will lead to success for the Company and the enhancement of shareholder value.

To build and retain a high-performing leadership team, we need to be competitive; providing strong base salaries along with both long and short-term incentives that are tied to objective performance goals. The intent is to reward Executives[1] for demonstrated leadership and the achievement of strategic goals. By having these components of compensation in place, our executive leaders will focus on attaining our corporate performance goals, and continually strive to create success for the Company and value for our shareholders.

Named Executives Officers

The following table lists the Named Executive Officers (the "NEOs") for Indigo during the fiscal year:

NEO	Title
Heather Reisman	Chair & Chief Executive Officer
Jim McGill(1)	Chief Operating Officer and Chief Financial Officer
Joyce Gray	EVP Retail & Customer Experience
Joel Silver(2)	President
Ray Camano	Executive Vice President and Chief General Merchant

(1) Effective April 2, 2011, Jim McGill stepped down from the position of Chief Financial Officer. Mr. McGill currently holds the position of Chief Operating Officer. Effective April 3, 2011, Kay Brekken was appointed to the position of Chief Financial Officer.

(2) Effective April 2, 2011, Joel Silver resigned as President of Indigo to move to a position at Trilogy Growth, a sister company to Indigo.

Components of Executive Compensation

Indigo's executive compensation philosophy is supported by the following five elements of our executive compensation program:

1. Base Salary
2. Annual Bonus Incentive Program
3. Long Term Performance and Retention Incentive Program
4. Stock Option Incentive Program
5. Perquisites and Other Benefits

[1] Executive(s), and Executive Management, mean, for the purposes of this compensation discussion & analysis: the Chair & CEO, President, Chief Operating Officer, Chief Financial Officer, Chief Information Officer and all Executive and Senior Vice Presidents.

Each component of the executive compensation program is defined and discussed below.

1. *Base Salary*

A competitive base salary serves to attract and retain strong leadership.

The base salary for Executives is determined through the evaluation of the responsibilities of the position, a review of market compensation levels for the role, the executive's relevant experience, the executive's past and current performance, and the executive's contribution to overall corporate performance.

Indigo offers competitive base salaries to its Executives to ensure that we are able to attract top performers and retain them in key leadership roles.

2. *Annual Bonus Incentive Program*

The Annual Bonus Incentive is a short-term incentive designed to tie compensation to both corporate goals and individual performance within a fiscal year.

Executives are eligible to earn up to 40% of their base salary through the Annual Bonus Incentive Program. Half of the payout is based on the achievement of corporate performance goals and the other half of the payout is based on individual and departmental performance.

Corporate performance is measured against EBITDA targets. EBITDA is a non-GAAP financial measure defined as earnings before interest, taxes, depreciation, amortization, non-controlling interest and non-recurring items.

The Company has chosen the achievement of EBITDA targets for bonus payout decisions as EBITDA is a measure of the Company's operating profitability. EBITDA is the key indicator used by the Company to measure performance against internal targets and prior period results. This measure is commonly used by financial analysts and investors to compare Indigo to other retailers. EBITDA provides investors with an effective tool for comparing year over year changes and for identifying trends in core profit as it eliminates non-operating expenses and non-cash charges which can make such comparisons difficult.

Payout of the Annual Bonus Incentive is subject to the achievement of no less than 95% of the overall corporate EBITDA target set in accordance with the Company's annual budget and pre-approved by the Board of Directors at the beginning of each fiscal year. If 95% of the budgeted EBITDA target is not achieved, there is no payout under both the corporate and individual performance elements of the Annual Bonus Incentive.

Payout of the corporate performance portion of the Annual Bonus Incentive is based on the percentage of the Board pre-approved EBITDA target that is achieved within a fiscal year. The following table outlines how payment of the corporate performance portion of the annual bonus is directly linked to achievement of performance targets.

Performance Target	Bonus Payout
Less than 95% of Budgeted EBITDA	No payout of either Corporate or Individual Annual Bonus Incentive
95% of Budgeted EBITDA	70% of Corporate Performance Portion Paid
100% of Budgeted EBITDA	100% of Corporate Performance Portion Paid
110% of Budgeted EBITDA	110% of Corporate Performance Portion Paid
120% of Budgeted EBITDA	130% of Corporate Performance Portion Paid
130% of Budgeted EBITDA	160% of Corporate Performance Portion Paid
140% of Budgeted EBITDA	180% of Corporate Performance Portion Paid
150% of Budgeted EBITDA	200% of Corporate Performance Portion Paid

A bonus payout of 200% of the corporate performance portion of the Annual Bonus Incentive is the maximum amount payable for this portion of the Annual Bonus Incentive.

If 95% or more of the budgeted EBITDA target is achieved the payout of the individual performance portion of the Annual Bonus Incentive will be paid out based on the performance rating achieved by each individual for the relative fiscal year.

Individual performance is measured against individual and department goals set out in departmental Balanced Scorecards. Please see The Balanced Scorecard heading below for a full description of the Balanced Scorecard.

Recommendations on the payout of the individual performance portion of the Annual Bonus Incentive for Executives are made by the Chief Executive Officer and approved by the Human Resources and Compensation Committee. An overall performance rating for each Executive is determined based on the achievement of goals from the departmental Scorecards. These decisions are reviewed and approved by the Human Resources and Compensation Committee of the Board and then approved by the full Board of Directors.

The percentage paid out under the individual performance portion of the Annual Bonus Incentive is based on the performance rating achieved by the Executive. The following table outlines the performance ratings and the corresponding percent of the individual performance portion of the Annual Bonus Incentive payable.

Overall Performance Rating	Individual Bonus Multiplier
Above Target	101 – 120%
On Target	76 – 100%
Below Target	0 – 75%

The maximum payout for the individual performance portion of the Annual Bonus Incentive is 120%.

In fiscal 2011, the Company did not achieve 95% of its pre-approved EBITDA target. As a result, no payouts were made to NEOs under the Annual Bonus Incentive Program

The Balanced Scorecard

The Balanced Scorecard system is designed to give individual Executives an accurate understanding of the Company's goals and business unit strategies. The Scorecard translates our mission and strategy into performance measures used to evaluate our performance against our strategy and allows us to set quantifiable goals across the following four key areas: 1. the customer's perspective; 2. the employee's perspective; 3. internal processes; and 4. our shareholders.

As a part of the Company's annual strategic planning process, the Company updates its Balanced Scorecard, setting the goals for its upcoming fiscal year.

There is a departmental Balanced Scorecard for each Executive's business unit. The goals within the departmental Scorecards are tied to the Company's strategic goals but are specific to each department's area of responsibility. The goals in these departmental Scorecards are intended to help achieve the Company's strategic targets.

We choose to link the payout of the individual portion of the Annual Bonus Incentive to the achievement of the goals in the departmental Scorecards as this drives our Executives to achieve the goals in their area of responsibility. As the goals of the departmental Scorecards are tied to the Company's strategic goals, achievement of departmental goals is expected to work to ensure the achievement of our overall corporate goals.

3. Long Term Performance and Retention Incentive Program

Prior to fiscal 2011, the Long Term Performance and Retention Incentive Program (the "Stretch Bonus Plan") was designed to motivate designated Senior Level Employees (which the Company defines as designated employees of the Company at the director, vice president and executive level) to achieve high performance and corporate success, and to retain high-performing employees at the senior management level. The Stretch Bonus Plan was created in 2006; the plan provided significant additional bonus payout to program participants if the Company met pre-established stretch EBITDA targets, set above the Company's budgeted EBITDA targets.

The Stretch Bonus Plan provided for an annual bonus pool of up to $5 million to be allocated among the participants. The bonus pool was divided into 200 units with each unit having a maximum value of $25,000. Participants in the Stretch Bonus Plan included the Company's Senior Level Employees, each of whom received units in the bonus pool at the start of the fiscal year based on the recommendations of the CEO and the Executive team.

Payout of the Stretch Bonus Plan was based on achieving pre-determined stretch EBITDA targets. In fiscal 2009, the stretch EBITDA targets were set $10 million above the Company's business plan EBITDA target. In fiscal 2010, the program was modified to provide partial payments for each $2 million dollars achieved above the Company's business plan EBITDA target as outlined in the table below. In addition, the Board of Directors agreed to adjust EBITDA for certain expenditures related to Kobo Inc. ("Kobo"), the Company's digital initiative, which was spun out into a separate company part way through the year.

Amount by which Actual EBITDA exceeds the base EBITDA Target ($ millions)	**Amount Included in Bonus Pool ($ millions)**	**Payout Percentage**	**Value per Unit ($ thousands)**
0	0	0%	0
2.0	0.6	30%	3.0
4.0	1.3	32%	6.4
6.0	2.2	36%	10.8
8.0	3.4	42%	16.8
10.0	5.0	50%	25.0

Stretch Bonus Plan payouts are made over a three-year period with fifty percent of the bonus paid in the first quarter of the fiscal year following the fiscal year in which the bonus was earned; twenty-five percent of the bonus is paid out one year following the initial payment; and the final twenty-five percent is paid out two years following the initial payout. The deferred portion of the bonus is not paid out if the participant resigns prior to the payment date. A participant is not eligible for payment in any year in which they are on a performance improvement plan.

There was no Long Term Performance and Retention Incentive Program in place for fiscal 2011. As the Company is in a significant period of transition, the Board of Directors felt that a new incentive program was required to reflect the changing business and to ensure that all executive compensation plans remain in line with Indigo's compensation philosophy. The new plan that will replace the Stretch Bonus Plan in fiscal 2012 is still under development.

In fiscal 2010, the Company's EBITDA, excluding certain expenditures relating to Kobo, was more than $10 million above the base EBITDA target and the Stretch Bonus Plan paid at a rate of $25,000 per unit.

No payments were made under the Long Term Performance and Retention Incentive Program for fiscal 2009 given that the Company did not achieve the specific stretch EBITDA targets.

The CEO and the Board believe that the significant additional bonus payout for achievement of the Stretch Bonus Plan EBITDA targets motivated Stretch Bonus Plan participants to focus on achieving a very high level of corporate performance. Further, the extended payout schedule encourages the retention of high-performing employees as the deferred portion of the bonus is not paid out if the participant resigns prior to the payment date.

4. *Stock Option Plan*

Indigo provides a long-term incentive to its Senior Level Employees through the Indigo Stock Option Plan.

Options granted through the Stock Option Plan permit plan participants to acquire Indigo Shares at an exercise price equal to the closing market price of such Shares under option on the date immediately preceding the date on which the option was granted. These stock option grants vest over a five year period. Until vested, stock option grants have no value. Stock option grants expire after 10 years.

The Stock Option Plan is designed to recognize the efforts of our Senior Level Employees in developing and implementing the Company's strategic initiatives and to provide these plan participants with an enhanced opportunity to share in the future success of Indigo. The Stock Option Plan serves to motivate and encourage senior management to deliver performance that increases the value of the Company and growth of our share price over the long term.

Granting of Stock Options

Stock option grants are typically considered as an incentive at the time of hiring of new Senior Level candidates, for individuals in Senior Level positions receiving promotions, and for retention purposes.

In the past, the Company has made periodic group grants to Senior Level Employees. Decisions regarding stock option grants to the Executives are made based on recommendations of the CEO and her review of their performance and contribution. The CEO's recommendations are then reviewed by the Human Resources and Compensation Committee and if accepted are then recommended to the Board of Directors for approval. Grant decisions for vice president and director level employees are based on the recommendations of the Executive Management team and a review of each employee's performance and contribution. These vice president and director level grants are then reviewed by the Human Resources and Compensation Committee and recommended to the Board of Directors for approval. The number of options available for issuance under the Stock Option Plan is also considered when any option grant is made.

On January 10, 2011, a grant of 75,000 stock options was made to the Executive Vice President and Chief General Merchant, Ray Camano pursuant to his offer letter. This stock option grant was approved by the Board of Directors on February 8, 2011.

There were no other stock option grants made to the Named Executive Officers during the fiscal year ended April 2, 2011.

The award of stock option grants must be reviewed and approved by the Human Resources and Compensation Committee and approved by the Board of Directors. When reviewing potential stock option grants, the Human Resources and Compensation Committee considers the recommendations of the CEO, the employee's performance, the number of stock options previously granted to the individual, and the number of options available for issuance under the Stock Option Plan.

The grant of stock options are based on three major criteria: the ability of the individual to have a significant impact on longer term results; the importance of the person to the mid to longer term requirements of the Company; and the potential of the individual to continue to progress within the Company.

Summary of the Stock Option Plan

As of May 31, 2011, options to purchase 2,006,100 Shares were outstanding, representing approximately 7.97% of the issued and outstanding Shares of the Corporation.

The Stock Option Plan is intended to benefit the Corporation as it aligns the optionees' interests with those of our shareholders. It enables us to attract and retain personnel of the highest calibre on a cost-effective basis by offering an opportunity for them to participate with shareholders in any increase in value of the Shares resulting from their efforts and thereby contribute to our success.

We may grant options to purchase Shares to our officers, full and part-time employees and certain consultants. Subject to the overall limit on the number of Shares reserved for issuance under the Stock Option Plan, the maximum number of Shares reserved for issuance pursuant to the exercise of options by any one participant is 5% of the then issued and outstanding Shares. The aggregate number of Shares issued to insiders of the Corporation within any 12-month period, or issuable to insiders of the Corporation at any time, under the Stock Option Plan and any other security based compensation arrangement of the Corporation, may not exceed 10% of the total number of issued and outstanding Shares of the Corporation at such time. As at May 31, 2011, the overall limit on the number of Shares reserved for issuance under the Stock Option Plan is 2,265,854 Shares or 10% of the issued and outstanding shares less 250,000 Shares reserved for issuance under the DSU Plan. Certain administrative amendments to the Stock Option Plan may be made by the Board of Directors without shareholder approval, subject to regulatory requirements and provided that the number of Shares reserved for issuance cannot be increased without shareholder approval. Such amendments to the Stock Option Plan that may be made without shareholder approval include: amendments for the purpose of curing any ambiguity, error or omission in the Stock Option Plan or to correct or supplement any provision of the Stock Option Plan that is inconsistent with any other provision of the Stock Option Plan; amendments necessary to comply with the provisions of the applicable law; any amendments to the vesting provisions of the Stock Option Plan or any option under such plan; and amendments to the early termination provisions of the Stock Option Plan or any option under such plan provided any such amendment does not entail an extension beyond the original expiry date.

Shareholder approval is required for certain types of amendments, including but not limited to amendments to the number of Shares issuable under the Stock Option Plan, including: an increase to a fixed maximum number of Shares or an increase to the fixed maximum percentage; any amendments expanding the categories of eligible participants under the Stock Option Plan which would have the potential of broadening or increasing insider participation; and any amendments extending the terms of an option held by an insider beyond its original expiry date except as provided for in the Stock Option Plan.

The exercise price of an option may not be lower than the closing price (as determined by our Board of Directors) of the Shares on the TSX on the trading day immediately preceding the date of the grant. The term of an option may not exceed 10 years from the date of the grant. Our Board of Directors determines the time at which options vest when making a grant. Currently, options vest at the rate of 20% per year, commencing on the anniversary of the date of grant. Options are non-assignable and non-transferable.

Our Board of Directors may provide for all issued and outstanding options to vest and become exercisable immediately upon a change of control of the Corporation. Unless otherwise determined by our Board of Directors, options cease to be exercisable within specified periods if an option holder ceases to be an officer, employee or consultant of the Corporation or one of its affiliates.

5. *Perquisites and Other Benefits*

Perquisites

The Company introduced a perquisite program for vice presidents and Executives in fiscal 2006. Through this plan, Indigo offers its vice presidents and Executives a perquisite account which allows participants the flexibility to top up their benefits in a way that is meaningful to them.

The perquisite program allows compensation for the following benefits: health and dental care upgrades; automobile leasing or car care; child care; elder care; club membership (airline, country club, health & fitness, etc.);

estate planning; financial or tax counselling; home computers or office equipment for personal or business use; income tax preparation; legal counselling; newspaper/magazine subscriptions; parking; personal trainer; private health care; retirement counselling; school fees; and travel upgrades.

Each Executive receives a perquisite account in the amount of $5,000 each fiscal year. If an Executive joins the Company part way through a fiscal year, the amount of their perquisite account is prorated for the period of time remaining in that fiscal year.

Other Benefits

RRSP Matching Program

The Company's RRSP matching program is open to all eligible employees, including Executives. The RRSP Matching Program matches employees' contributions up to a maximum of 3% of base salary per fiscal year for eligible employees who participate in the program.

The amounts paid to participating Named Executive Officers in fiscal 2011 are noted in the following table.

NEO	Amount received by NEO in fiscal 2010 pursuant to the Company's RRSP Matching Program
Heather Reisman	$ 0
Jim McGill	$10,010
Joyce Gray	$12,205
Joel Silver	$10,500
Ray Camano	$ 0

Health Benefits

Executives are eligible to receive the same health benefits which are available to other employees. The Executives receive their health benefits at no cost; all other eligible employees pay a monthly premium of $15/month for single coverage or $30/month for family coverage. In addition, benefits provided to our Executives include a higher level of life insurance and 100% coverage for health and dental claims compared with 80% coverage for health and dental claims for all other eligible employees.

Car Allowance

Each Executive receives a monthly taxable car allowance of $1,100.

Summary

We believe that the components (Base Salary, Annual Bonus Incentive, Stock Option Plan, and Perquisites and Other Benefits) of our executive compensation program support our competitive pay for performance compensation philosophy and allow Indigo to build and sustain an outstanding team focused on corporate performance and improving shareholder value.

The Company believes that the specific EBITDA targets set for our Annual Bonus Incentive Program are competitively sensitive and disclosing them would seriously prejudice the Company's interest. Since the Company does not provide financial forecasts, disclosure of such targets would be inappropriate given that the information could be misinterpreted as guidance.

The Board of Directors believes that the approved EBITDA targets are aggressive but achievable. The Company has achieved 100% of its Annual Bonus Incentive target in one of the past three years and 100% of its Stretch Bonus Plan target in one of the past three years.

Performance Dependent Compensation

Indigo's executive compensation is a mix of fixed and variable/at risk compensation. A significant portion of the annual compensation paid to Executives is considered to be variable compensation and is dependent upon the achievement of the Company's strategic goals or individual contribution and performance. This variable compensation ensures that our Executives are clearly focused on the Company's performance and serves to align their interests with those of our shareholders.

The variable/at risk portion of Executive compensation is made up of the Annual Bonus Incentive, the Stretch Bonus Program, and the Stock Option Incentive Program. In 2011, the Stretch Bonus Program was not a part of the Executive compensation program and there were no stock option grants made to the Named Executive Officers except the option grant made to Ray Camano at the time of his hire. The Board of Directors believes that these changes in fiscal 2011 executive compensation are appropriate given the significant changes taking place in the industry.

As a result, there is a decrease in the aggregate executive compensation level with a higher percentage of the total compensation represented by fixed compensation in fiscal 2011.

The fixed portion of the NEO's annual compensation is comprised of base salary, perquisites and other benefits.

The aggregate annual compensation for each of the Named Executive Officers decreased between 59% and 69% from fiscal 2010 to fiscal 2011. This decrease in the aggregate annual compensation is primarily due to the removal of the Stretch Bonus Plan in fiscal 2011 and the fact that only one Named Executive Officer received a stock option grant in fiscal 2011.

There was no Long Term Performance and Retention Incentive Program in place for fiscal 2011. As the Company is in a significant period of transition, the Board of Directors felt that a new incentive program was required to reflect the changing business and to ensure that all executive compensation plans remain in line with Indigo's compensation philosophy. The new plan that will replace the Stretch Bonus Plan in fiscal 2012 is still under development.

The tables below illustrate the percent changes in each component of Executive Compensation for the Named Executive Officers from fiscal 2010 through fiscal 2011.

Heather Reisman	**FY10**	**FY11**	**% Change in Compensation by Component from fiscal 2010 to fiscal 2011**
Base Salary	$ 500,000	$400,000	-20%
Stock Options	nil	nil	0%
Annual Bonus Incentive	nil	nil	n/a
Stretch Bonus	$ 500,000	nil	-100%
All Other Compensation	$ 13,200	$ 13,200	0%
Total	**$1,013,200**	**$413,200**	**-59%**

Jim McGill	**FY10**	**FY11**	**% Change in Compensation by Component from fiscal 2010 to fiscal 2011**
Base Salary	$ 343,269	$343,269	0%
Stock Options	$ 197,465	$ 0	-100%
Annual Bonus Incentive	$ 147,000	$ 0	-100%
Stretch Bonus	$ 500,000	$ 0	-100%
All Other Compensation	$ 27,773	$ 28,211	2%
Total	**$1,215,507**	**$371,480**	**-69%**

Joyce Gray	**FY10**	**FY11**	**% Change in Compensation by Component from fiscal 2010 to fiscal 2011**
Base Salary	$ 400,539	$406,846	2%
Stock Options	$ 129,410	$ 0	-100%
Annual Bonus Incentive	$ 172,200	$ 0	-100%
Stretch Bonus	$ 400,000	$ 0	-100%
All Other Compensation	$ 30,216	$ 30,405	1%
Total	**$1,132,365**	**$437,252**	**-61%**

Joel Silver	**FY10**	**FY11**	**% Change in Compensation by Component from fiscal 2010 to fiscal 2011**
Base Salary	$ 370,833	$375,000	1%
Stock Options	$ 197,465	$ 0	-100%
Annual Bonus Incentive	$ 157,500	$ 0	-100%
Stretch Bonus	$ 500,000	$ 0	-100%
All Other Compensation	$ 28,700	$ 28,700	0%
Total	**$1,254,498**	**$403,700**	**-68%**

Ray Camano[(1)]	**FY10**	**FY11**	**% Change in Compensation by Component from fiscal 2010 to fiscal 2011**
Base Salary	n/a	$ 91,026[(1)]	n/a
Stock Options	n/a	$250,901	n/a
Annual Bonus Incentive	n/a	$ 0	n/a
Stretch Bonus	n/a	$ 0	n/a
All Other Compensation	n/a	$167,981	n/a
Total	n/a	**$509,908**	n/a

(1) Mr. Camano joined Indigo on January 10, 2011.

Benchmarking

Periodically, the market value of each Executive position is reviewed by an independent consulting firm, the results of which are shared with the Human Resources and Compensation Committee. Our most recent review was conducted by Hay Group Limited in 2010. This study evaluated Indigo's executive compensation through a review and comparison of the executive compensation disclosed in the most recent Management Information Circulars from eight comparator companies.

Comparisons were made between Indigo executive compensation and the executive compensation of the comparator group of companies in the following areas:

Compensation Description	Indigo	Comparator Group
Salary	Salary	Salary
Total Cash	Salary + Actual Bonus	Salary + Actual Bonus
Total Direct	Total Cash + Stretch Bonus + 2010 Stock Option Grants	Total Cash + Grant Value of Mid- and Long-Term Incentives

To ensure that the Company's executive compensation program is competitive, Indigo has identified criteria to establish a suitable external comparator group against which to benchmark its compensation practices. The practice of benchmarking our compensation program against the appropriate comparator group works to ensure that we provide a compelling compensation package to attract and retain top performers from the competitive marketplace.

While there is no uniform industry group to which Indigo can be easily compared, the Company has chosen Canadian specialty retailers and Canadian retail companies to make up its comparator group. The Company believes that, as a specialty retailer in Canada, it is important for our comparator group to include Canadian specialty retailers and to broaden the comparator group the comparison also includes three Canadian retail companies. The comparator group chosen is set forth in the table below and shall hereinafter be referred to as the Comparator Group.

The criteria for companies to be included in Indigo's Comparator Group of companies are as follows:

Specialty retailers and service providers;

Canadian retailers;

Consumer focused companies; and

Companies with revenues between $500 million and $1.5 billion.

The table below indicates how the companies included in the Comparator Group meet the criteria listed above.

Company	Specialty Retailer	Canadian Retailer	Consumer Focused	Revenues of $500 million – $1.5 billion
BMTC Group	✓	✓	✓	✓
Brick Group Income Fund	✓	✓	✓	✓
The Forzani Group Ltd.	✓	✓	✓	✓
Leon's Furniture	✓	✓	✓	✓
Sears Canada		✓	✓	
Jean Coutu Group	✓	✓	✓	
Reitmans Canada Ltd.	✓	✓	✓	✓
RONA Inc.	✓	✓	✓	

Executives' Role in Compensation Decisions

The Chief Executive Officer works with the Chief Financial Officer and the Senior Vice President, Human Resources & Organizational Development to prepare recommendations for executive compensation to the Human Resources and Compensation Committee.

The Senior Vice President, Human Resources & Organizational Development works with Mr. Hall, the Chair of the Human Resources and Compensation Committee, to plan the schedule of committee meetings for the year and to prepare the agenda and presentations for each meeting.

Composition of the Human Resources and Compensation Committee

Mr. Kirby, Mr. Hall and Mr. Clegg served as the three members of the Human Resources and Compensation Committee of our Board of Directors for the fiscal year ended April 2, 2011. None of the members of the Human Resources and Compensation Committee is an officer, employee or former officer or employee of the Company or any of its affiliates or is eligible to participate in the Company's executive compensation program. None of the members is an active chief executive officer with a publicly-traded entity.

Role of the Human Resources and Compensation Committee

The Human Resources and Compensation Committee reviews and makes recommendations to the Board of Directors in all matters pertaining to the appointment, compensation and benefits of all of the Company's Executives.

Each year the Human Resources and Compensation Committee receives a review of executive compensation which includes a recommendation of increases to base salaries. When considering proposed increases to base salaries the Committee considers the CEO's recommendations, the Company's performance over the previous year, economic conditions and compensation paid for similar positions at comparable companies.

The Human Resources and Compensation Committee makes recommendations to the Board of Directors regarding the CEO's compensation. The Human Resources and Compensation Committee held three meetings in fiscal 2011.

Role of Compensation Consultant in Compensation Decisions

The market value of each officer position is reviewed periodically by an independent consulting firm which reports to the Human Resources and Compensation Committee. Market data is gathered and reviewed against the Comparator Group of companies of similar size and nature to the Corporation, determined by industry segment, revenue and number of employees. Our target level for executive compensation (base salary and Annual Bonus Incentive) is aimed to be at or above the median position in the market of Canadian companies of comparable size and nature. The inclusion of the Stretch Bonus Plan in the fiscal years 2006 through 2010 resulted in total potential executive compensation exceeding the median position of our Comparator Group. The most recent executive compensation study was completed in 2010 by Hay Group Limited.

Compensation of the Chief Executive Officer

The compensation of the CEO is based upon the same criteria as that used in determining the compensation payable to our other Executives. The base salary of the CEO is determined by an assessment by the Human Resources and Compensation Committee of the CEO's performance, a consideration of competitive compensation levels in companies similar to us, a review of the Company's performance as a whole, and the role the CEO played in such corporate performance.

As noted above, the market value of all Executive positions, including that of the CEO, is assessed periodically by an independent consulting firm which reports to the Human Resources and Compensation Committee. The total compensation is reviewed against the Comparator Group of companies of comparable size and nature to Indigo, which is set out above under the heading "Benchmarking".

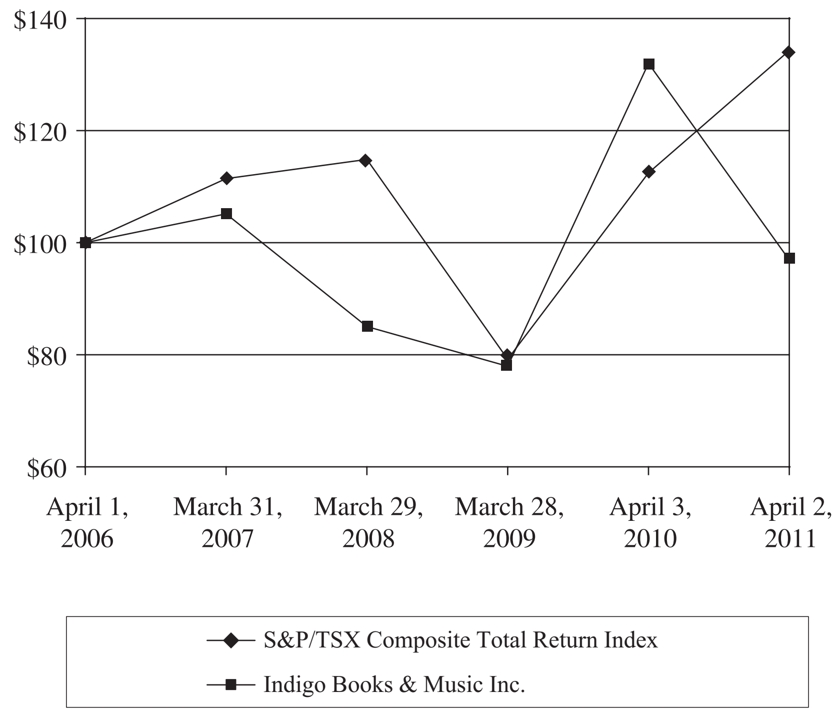
While the total compensation for other Executive positions is intended to be positioned close to market median, the Human Resources and Compensation Committee recognized that the salary for the CEO position was well below the median. However, the CEO chose to accept such compensation during the expansionary phase of the business and her base salary remained at the same level from 2001 to 2007. The CEO's base salary was increased to $500,000 on April 1, 2007. On October 1, 2010 the CEO elected to reduce her base salary to $300,000 in recognition of the changing nature of the business and the significant period of transition currently facing the Company. Effective April 1, 2007, the CEO became eligible to participate in the Annual Bonus Incentive Program as well as the Stock Option Plan. However, the CEO chose not to receive an annual bonus incentive payment or grant of stock options for the fiscal years ended March 28, 2009, April 3, 2010, and April 2, 2011. Effective March 29, 2009, the CEO became eligible to participate in the Stretch Bonus Plan.

The Human Resources and Compensation Committee recommends to the Board the Annual Bonus amount earned by the CEO, pursuant to the Annual Bonus Incentive plan, based on her performance during the fiscal year. The CEO has discretion to accept or forgo the recommended bonus.

PERFORMANCE GRAPH

The following graph compares the total cumulative shareholder return for $100 invested in Indigo Shares on April 1, 2006 with the cumulative total return of the S&P/TSX Composite Total Return Index for the fiscal years ended, March 31, 2007, March 29, 2008, March 28, 2009, April 3, 2010, and April 2, 2011.(1)

(1) Total return assumes reinvestment of dividends for the S&P/TSX Composite Total Return Index and Indigo common shares.

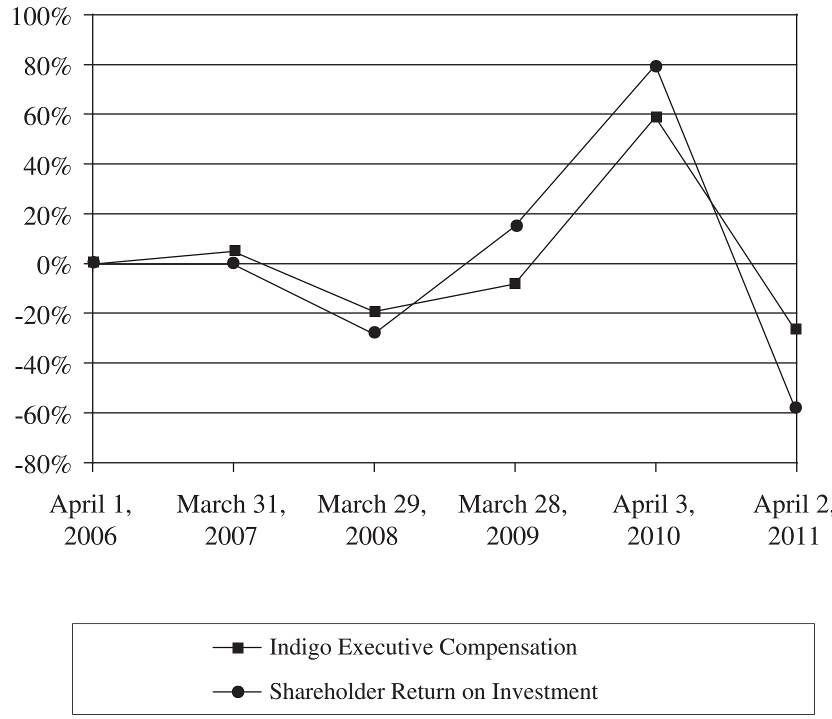


	April 1, 2006	March 31, 2007	March 29, 2008	March 28, 2009	April 3, 2010	April 2, 2011
Indigo Common Shares	$100.00	$105.11	$ 84.97	$77.88	$131.92	$ 96.87
S&P/TSX Composite Total Return Index	$100.00	$111.42	$114.86	$79.21	$112.45	$134.25

As referenced above, the Company uses EBITDA as a measure of corporate performance. The Annual Bonus Incentive Plan and the Stretch Bonus Plan, where applicable, are based on the achievement of EBITDA targets and consequently, total executive compensation is tied to EBITDA rather than share price.

The following graph illustrates how the Company's total NEO cash compensation has followed the same trend as the shareholders' total return on investment over the past five years.

As stock option compensation is dependent on future share performance, this portion of compensation is not included in the historical comparison of total compensation to historical shareholder returns.



The following table summarizes all of the compensation received by our Named Executives for the fiscal year ended April 2, 2011.

SUMMARY COMPENSATION TABLE FOR FISCAL 2011

Name and Principal Position	Year	Salary ($)	Option-based Awards ($)	Non-Equity Incentive Plan Compensation: Annual Incentive Plans[1] ($)	Non-Equity Incentive Plan Compensation: Long-Term Incentive Plans[2] ($)	All Other Compensation[3] ($)	Total Compensation[4] ($)
HEATHER REISMAN[5]	2011	$400,000	nil	n/a	n/a	$ 13,200	$ 413,200
Chair & Chief Executive Officer	2010	$500,000	nil	n/a	$500,000	$ 13,200	$1,013,200
	2009	$500,000	nil	n/a	n/a	$ 13,200	$ 513,200
JIM MCGILL[6]	2011	$343,269	nil	nil	n/a	$ 28,211	$ 371,480
Chief Operating Officer	2010	$343,269	$197,465	$147,000	$500,000	$ 27,773	$1,215,507
and Chief Financial Officer	2009	$341,667	nil	$119,000	nil	$ 27,350	$ 488,017
JOYCE GRAY[7]	2011	$406,846	nil	nil	n/a	$ 30,405	$ 437,252
EVP Retail & Customer Experience	2010	$400,537	$129,410	$172,200	$400,000	$ 30,216	$1,132,365
	2009	$408,333	nil	$139,400	nil	$ 27,425	$ 575,158
JOEL SILVER[8]	2011	$375,000	nil	nil	n/a	$ 28,700	$ 403,700
President	2010	$370,833	$197,465	$157,500	$500,000	$ 28,700	$1,254,498
	2009	$341,667	nil	$119,000	nil	$ 28,325	$ 488,992
RAY CAMANO[9]	2011	$ 91,026	$250,901	nil	n/a	$162,981	$ 509,908
Executive Vice President and Chief General Merchant							

(1) The bonus amount under Annual Incentive Plans discloses the amounts earned by an individual during a fiscal year under the Annual Bonus Incentive Program. Amounts earned under the Annual Bonus Incentive Program, where applicable, are paid out in the first quarter of the year following the year in which it was earned.

(2) The bonus amount under Long Term Incentive Plans discloses the amounts earned by an individual during a fiscal year under the Stretch Bonus Plan. Amounts earned under the Stretch Bonus Plan, where applicable, are paid out 50% in the first quarter of the year following the year in which it was earned and 25% in each of the two subsequent years, as long as the individual is still employed with the Company during such years. The Stretch Bonus Plan was in place from fiscal 2006 and through fiscal 2010. The Stretch Bonus Plan was not in place for fiscal 2011.

(3) The amounts shown under All Other Compensation include the Named Executive Officer's taxable car allowance, other perquisites, amounts reflecting the value received during the year pursuant to the RRSP matching program where applicable, signing bonus amounts where applicable, and any amounts paid as moving allowances where applicable.

(4) The Company defines Total Compensation as total cash compensation plus total equity compensation.

(5) Ms. Reisman is the Chair and Chief Executive Officer. On October 1, 2010, Ms. Reisman elected to reduce her annual base salary from $500,000 to $300,000.

(6) Mr. McGill currently holds the position of Chief Operating Officer.

Mr. McGill was hired as Chief Financial Officer March 17, 2003, and was subsequently appointed as Chief Operating Officer and Chief Financial Officer effective October 26, 2009.

Mr. McGill stepped down from the position of Chief Financial Officer on April 2, 2011.

Mr. McGill did not receive a bonus payment in fiscal 2011.

Mr. McGill's 2010 bonus comprised $147,000 earned pursuant to the Annual Bonus Incentive Program and $500,000 earned pursuant to the Stretch Bonus Plan.

Mr. McGill's 2009 bonus comprised $119,000 earned pursuant to the Annual Bonus Incentive Program.

On October 29, 2009 Mr. McGill was granted 25,000 stock options in recognition of the increased responsibilities in his new role as Chief Operating Officer. The Black Scholes fair value of these options on the grant date is $113,425. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk free rate of 2.08%; time to maturity of 5.9 years; dividend yield of 2.66%; and volatility of 43.8%.

On May 27, 2009 Mr. McGill was granted 20,000 stock options as part of a group stock option grant to Senior Level Employees and Executives. The Black Scholes fair value of these options on the grant date is $84,040. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk-free rate of 2.3%; time to maturity of 5.9 years; dividend yield of 3.10%; and volatility of 41.6%.

Pursuant to the RRSP matching program, the Company matched Mr. McGill's RRSP contribution of $10,011, $9,573, and $9,150, for the years 2011, 2010, and 2009, respectively.

(7) Ms. Gray was hired as Executive Vice President, Retail and Consumer Experience on July 5, 2007.

Ms. Gray did not receive a bonus payment in fiscal 2011.

Ms. Gray's 2010 bonus comprised $172,200 earned pursuant to the Annual Bonus Incentive Program and $400,000 earned pursuant to the Stretch Bonus Plan.

Ms. Gray's 2009 bonus comprised $139,400 earned pursuant to the Annual Bonus Incentive Program.

On May 27, 2009 Ms. Gray was granted 20,000 stock options as part of a group stock option grant to Senior Level Employees and Executives. The Black Scholes fair value of these options on the grant date is $84,040. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk-free rate of 2.3%; time to maturity of 5.9 years; dividend yield of 3.10%; and volatility of 41.6%.

On October 29, 2009 Ms. Gray was granted 10,000 stock options in recognition of the increased responsibilities in her role. The Black Scholes fair value of these options on the grant date is $45,370. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk free rate of 2.08%; time to maturity of 5.9 years; dividend yield of 2.66%; and volatility of 43.8%.

Pursuant to the RRSP matching program, the Company matched Ms. Gray's RRSP contribution of $12,205, $12,016 and $9,225 for fiscal years 2011, 2010, and 2009, respectively.

(8) Mr. Silver resigned as President of Indigo effective April 2, 2011. Mr. Silver moved to a position at Trilogy Growth, a sister company.

Mr. Silver was hired as Vice President, Print Procurement on December 1, 2003 and was subsequently appointed as Executive Vice President, Print and Entertainment on June 17, 2005, as Chief Merchant effective April 1, 2007 and then as President effective October 26, 2009.

Mr. Silver's base salary was increased from $350,000 to $375,000 effective June 1, 2009.

Mr. Silver did not receive a bonus payment in fiscal 2011.

Mr. Silver's 2010 bonus comprised $157,500 earned pursuant to the Annual Bonus Incentive Program and $500,000 earned pursuant to the Stretch Bonus Plan.

Mr. Silver's 2009 bonus comprised $119,000 earned pursuant to the Annual Bonus Incentive Program.

On May 27, 2009 Mr. Silver was granted 20,000 stock options as part of a group stock option grant to Senior Level Employees and Executives. The Black Scholes fair value of these options on the grant date is $84,040. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk-free rate of 2.3%; time to maturity of 5.9 years; dividend yield of 3.10%; and volatility of 41.6%.

On October 29, 2009 Mr. Silver was granted 25,000 stock options in recognition of the increased responsibilities in his role as President. The Black Scholes fair value of these options on the grant date is $113,425. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk free rate of 2.08%; time to maturity of 5.9 years; dividend yield of 2.66%; and volatility of 43.8%.

Pursuant to the RRSP matching program, the Company matched Mr. Silver's RRSP contribution of $10,500, $10,500, and $10,125, for the years 2011, 2010, and 2009, respectively.

(9) Mr. Camano was hired as Executive Vice President and Chief General Merchant on January 10, 2011. Mr. Camano received a pro-rated salary of $91,026 and car allowance of $2,981 for the period from January 10, 2011 through April 2, 2011.

Mr. Camano was granted 75,000 stock options pursuant to his employment agreement. The Black Scholes fair value of these options on the grant date is $250,901. The following assumptions were used in the calculation of the grant date fair value of these stock options: risk-free rate of 2.26%; time to maturity of 4.28 years; dividend yield of 2.93%; and volatility of 32.3%.

Mr. Camano received a $100,000 signing bonus on March 31, 2011.

Mr. Camano is entitled to receive up to $60,000 as a one-time moving allowance. He will receive reimbursement for all moving-related expenses including any legal and immigration expenses incurred in relation to his move up to a total amount of $60,000.

Mr. Camano did not receive a bonus payment in fiscal 2011.

OUTSTANDING SHARE-BASED AWARDS AND OPTION-BASED AWARDS

The following table shows the number and value of outstanding stock options held by each of the Named Executives as at April 2, 2011.

	Option-Based Awards			
Name	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised in-the-money Options[1] ($)
Heather Reisman	nil	nil	nil	nil
Jim McGill	40,000	$ 8.25	August 31, 2015	$185,200
Jim McGill	25,000	$13.03	October 29, 2019	nil
Jim McGill	20,000	$13.99	May 27, 2019	nil
Joyce Gray	10,000	$13.03	October 29, 2019	nil
Joyce Gray	20,000	$13.99	May 27, 2019	nil
Joyce Gray	100,000	$16.75	July 5, 2017	nil
Joel Silver	25,000	$13.03	October 29, 2019	nil
Joel Silver	20,000	$13.99	May 27, 2019	nil
Ray Camano	75,000	$15.10	January 10, 2021	nil

(1) This column contains the aggregate dollar value of in-the-money vested and unvested unexercised options as at April 2, 2011, using the April 1, 2011 closing share price of $12.88.

INCENTIVE PLAN AWARDS — VALUE VESTED OR EARNED DURING THE YEAR

The following table shows the value of any outstanding stock options held by each of the Named Executives which vested during fiscal 2011. The value of the options has been calculated based on the closing share price on the date on which the options vested.

Name	Option-Based Awards — Value Vested During the Year[1] ($)	Non-equity incentive plan compensation[2] — Value Earned During the Year ($)
Heather Reisman	n/a	$0
Jim McGill	$63,240	$0
Joyce Gray	$ 9,200	$0
Joel Silver	$63,240	$0
Ray Camano	nil	$0

(1) This column includes the aggregate dollar value that would have been realized if stock options were exercised on the vesting date.

(2) Non-equity incentive plan compensation includes amounts earned by an individual during a fiscal year under the Annual Bonus Incentive Program. Amounts earned under the Annual Bonus Incentive Program, where applicable, are paid out in the first quarter of the year following the year in which it was earned.

MATERIAL TERMS AND CONDITIONS OF EMPLOYMENT AGREEMENTS

Indigo has an employment agreement with each of its Chief Operating Officer and Chief Financial Officer, EVP of Retail and Consumer Experience, and EVP and Chief General Merchant. The Company had an employment agreement with its former President. The key terms of each of these agreements are outlined below:

Jim McGill, Chief Operating Officer and Chief Financial Officer

Indigo has an employment agreement with its Chief Operating Officer, Mr. Jim McGill.

Jim McGill stepped down from his position as Chief Financial Officer effective April 2, 2011, and will resign from Indigo with an effective date of June 30, 2011. The Company is not obligated to make any payments to Mr. McGill following his resignation.

Joyce Gray, Executive Vice President, Retail & Consumer Experience

Indigo has an employment agreement with its Executive Vice President, Retail & Consumer Experience, Ms. Joyce Gray. If Ms. Gray's employment had been terminated without cause on the last day of fiscal 2011, the Company would be obligated to pay out $507,500 to Ms. Gray under the terms of this agreement.

Ms. Gray's employment with the Company commenced on July 7, 2007.

In the event that Ms. Gray is terminated for any reason without cause, she is entitled to: salary continuance equal to nine months of her base salary; a pro rata amount of the corporate bonus portion of the Annual Bonus Incentive for the portion of the bonus period prior to termination provided that the bonus was actually payable for that period; and all benefit programs for the relevant period during which salary continued except for long term disability and accidental death and dismemberment coverage.

Any such payments to Ms. Gray will cease in the event that she accepts alternate full time employment or consulting work leading to full time employment.

Mr. Joel Silver, former President

Indigo had an employment agreement with its former President, Mr. Joel Silver.

Mr. Silver resigned from his position as President of Indigo in order to lead Trilogy Growth, a partnership with Trilogy Retail Enterprises L.P., the majority shareholder of Indigo. Indigo will provide health and medical benefits coverage for Mr. Silver until the earlier of April 2, 2012, or the date on which a comparable health benefits plan is in place for Mr. Silver at Trilogy Growth. The Company is not obligated to make any other payments to Mr. Silver following his resignation.

Ray Camano, Executive Vice President and Chief Merchant

Indigo has an employment agreement with its Executive Vice President and Chief General Merchant, Mr. Ray Camano. If Mr. Camano's employment had been terminated without cause on the last day of fiscal 2011, the Company would be obligated to pay out $200,000 to Mr. Camano under the terms of this agreement.

Mr. Camano's employment with the Company commenced on January 10, 2011.

In the event that Mr. Camano is terminated for any reason without cause within the first 12 months of employment, the terms of Mr. Camano's employment agreement, dated January 10, 2011, entitle him to: salary continuance equal to six months of his base pay; and all benefit programs for the relevant period during which salary is continued except for long term disability and accidental death and dismemberment coverage which will be continued for the statutory period only.

In the event that Mr. Camano is terminated for any reason without cause after the first 12 months of his employment, he is entitled to: salary continuance equal to twelve months of his base salary; a pro rata amount of the corporate bonus portion of the Annual Bonus Incentive for the portion of the bonus period prior to termination provided that the bonus was actually payable for that period; and all benefit programs for the relevant period during which salary continued except for long term disability and accidental death and dismemberment coverage which will be continued for the statutory period only.

Any such payments to Mr. Camano will cease in the event that he accepts alternate full time employment or consulting work leading to full time employment.

Change of Control

Indigo does not have any plans or programs under which payments to any of the NEOs are triggered by a change of control of the Company, a change in the NEO's responsibilities or a constructive termination of the NEO.

The only payments or benefits payable by the Company in the event of termination of employment are those provided under the terms of the Company's existing compensation and benefits program or as provided for in the NEO employment agreements.

The table below outlines the amounts that would be payable to each Named Executive Officer in the event of termination without cause on the last day of fiscal 2011. In the event of termination with cause on the last day of fiscal 2011, there would be no payments due to the NEO. In addition to the amounts outlined in the table below, Ms. Gray would be entitled to all benefit programs, except for long term disability and accidental death and dismemberment coverage, for a period of nine months.

2011 Potential Payments Upon Termination

	Base Salary	Annual Bonus Incentive	Stretch Bonus Plan(1)	Total Payout
Heather Reisman	no written employment contract			
Jim McGill	no payment to be made upon resignation effective June 30, 2011			
Joyce Gray	$307,500	$0	$200,000	$507,500
Joel Silver	provision of health and medical benefits only as of resignation effective April 2, 2011			
Ray Camano	$200,000	$0	$ 0	$200,000

(1) The Stretch Bonus Plan amount shown above represents the remaining Stretch Bonus Amount owing for the Stretch Bonus earned in fiscal 2010.

Pension

The Company does not provide a pension plan to any of its employees.

COMPENSATION OF DIRECTORS

At the annual meeting on August 19, 2003, shareholders' approval was received to create a directors' DSU Plan. The DSU Plan provides for directors who are not officers or employees of the Company or Trilogy Retail Enterprises L.P. ("Outside Directors") to receive deferred share units as compensation for their services. Management believes that the DSU Plan further aligns the interests of the Outside Directors with those of the shareholders. On June 21, 2007, the Corporation received shareholders' approval to amend the DSU Plan to allow for certain administrative amendments to the DSU Plan in accordance with regulatory requirements. On July 6, 2010, the Corporation received shareholders' approval to amend the DSU Plan to provide that Shares issued pursuant to the redemption of DSUs granted under the DSU Plan and any Shares reserved for issuance pursuant to DSUs which are cancelled or terminated without having been redeemed shall be again available for issuance pursuant to the DSU Plan.

Under the DSU Plan, Outside Directors receive 100% of their directors' compensation in deferred share units. Each director will be entitled to the number of deferred share units equal to the amount of the cash compensation the director would otherwise receive divided by the closing price of a Share on the TSX as at the date of the grant. Each deferred share unit vests immediately and represents the right of the director to receive, after termination of Board service, one Share issued from treasury. When a dividend is paid on the Shares, each director is allocated additional deferred share units equal to the value of the total dividends paid on the number of deferred share units that the director has at the dividend payment date. Deferred share units will expire if they are not redeemed by the end of the calendar year following the year in which a director's Board service is terminated. Units are non-assignable and non-transferable.

As at May 31, 2011, 250,000 of our Shares are reserved for issuance under the DSU Plan representing approximately 0.99% of the issued and outstanding shares; deferred share units to acquire 224,044 Shares were outstanding, representing approximately 0.89% of the issued and outstanding Shares, which amount is subject to increase or decrease through subdivision or consolidation of the outstanding Shares. Subject to the overall limit on the number of Shares reserved for issuance under the DSU Plan and the Stock Option Plan, the maximum number of Shares reserved for issuance pursuant to the exercise of deferred share units by any one participant is 5% of the then issued and outstanding Shares. The aggregate number of Shares issued to insiders of the Corporation within any 12-month period, or issuable to insiders of the Corporation at any time, under the DSU Plan and any other security based compensation arrangement of the Corporation, may not exceed 10% of the total number of issued and outstanding Shares of the Corporation at such time. The DSU Plan is administered by the Board of Directors with the assistance of the Corporate Governance Committee. Certain administrative amendments to the DSU Plan may be made by the Board of Directors without shareholder approval, subject to regulatory requirements and provided that the number of Shares reserved for issuance cannot be increased without shareholder approval. Such amendments to the DSU Plan that may be made without shareholder approval include: amendments for the purpose of curing any ambiguity, error or omission in the DSU Plan or to correct or supplement any provision of the DSU Plan that is inconsistent with any other provision of the DSU Plan; amendments necessary to comply with the provisions of the applicable law; any amendments to the vesting provisions of the DSU Plan or any unit under such plan; and amendments to the early termination provisions of the DSU Plan or unit under such plan provided any such amendment does not entail an extension beyond the original expiry date.

Shareholder approval is required for certain types of amendments, including but not limited to amendments to the number of Shares issuable under the DSU Plan, including an increase to a fixed maximum number of Shares or an increase to the fixed maximum percentage; any amendments expanding the categories of eligible participants under the DSU Plan which would have the potential of broadening or increasing insider participation; and any amendments extending the terms of a unit held by an insider beyond its original expiry date except as provided for in the DSU Plan.

In fiscal 2010, Indigo implemented a quarterly cash dividend of $0.10 per common share, or $0.40 per share annually on its common shares. On April 19, 2010, Indigo announced a 10% increase in its quarterly cash dividend to $0.11 per common share, or $0.44 per share annually on its common shares. Pursuant to the DSU plan, each director will be granted notional dividend equivalents in the form of additional DSUs in respect of normal cash dividends. Directors cannot redeem their DSUs until their Board service is terminated. The value of the payout of DSUs is dependent on the value of common shares at the time of the redemption. There is no protection for these directors from the possibility of declining share prices. By tying the value of the Outside Directors' payment to the Company's share performance and requiring the directors to hold their DSUs until their Board service comes to an end, the directors' attention will be focused on the long-term performance of the Company, which, in turn, aligns their interests with the interests of our shareholders.

Compensation allocated to Indigo's Outside Directors in fiscal 2011 is based on the following fee schedule:

Fee Description	($)
Annual Board Retainer	20,000
Committee Retainer	3,000
Committee Chair Retainer:	
Audit	15,000
HR & Compensation	7,500
Corporate Governance	7,500
Technology Advisor Retainer	7,500
Board Meeting Fees:	
In Person	2,000
By Phone	1,000
Committee Meeting Fees	2,000
Committee Chair Meeting Fees:	
Audit	3,500
HR & Compensation	3,500
Corporate Governance	3,500

The following grants of deferred share units were approved by our Board of Directors on May 31, 2011:

Name of Director	Number of Units Earned	Number of Units Granted for NDEs[(1)]
Bonnie Brooks	2,041	81
Frank Clegg	3,980	555
Jonathan Deitcher	2,689	949
Mitchell Goldhar	1,837	267
James Hall	4,899	1,489
Michael Kirby	6,172	1,867
Robert Lantos[(2)]	519	711
Tedford Marlow[(3)]	1,009	4
Bruce Mau	1,907	179
Anne Marie O'Donovan	2,809	49

(1) NDEs are notional dividend equivalents and represent the DSUs awarded to directors in respect of cash dividend payouts.

(2) Robert Lantos resigned from the Board effective May 1, 2010. His balance of DSUs continues to earn Notional Dividend Equivalents in the form of DSUs with respect to cash dividend payments.

(3) DSUs granted to Tedford Marlow represent directors' compensation earned by Mr. Marlow prior to his appointment to the position of President on April 3, 2011.

Directors' compensation is determined by the Corporate Governance Committee based on regular review of a third party study of board compensation of Canadian companies similar in size to Indigo.

DIRECTOR COMPENSATION TABLE

The following table outlines the dollar value of the compensation awarded to each outside Director in fiscal 2011. All compensation received by Indigo Directors for Board service is paid through equity-based compensation. There is no cash compensation paid to Directors.

Name	Share-based Awards	Non-Equity Incentive Plan Compensation	All Other Compensation[(1)]	Total Compensation
Bonnie Brooks	$29,000	nil	$ 1,161	$ 30,161
Frank Clegg	$56,500	nil	$ 7,975	$ 64,475
Jonathan Deitcher	$38,000	nil	$ 13,667	$ 51,667
Mitchell Goldhar	$26,000	nil	$ 3,846	$ 29,846
James Hall	$69,000	nil	$ 21,426	$ 90,426
Michael Kirby	$87,000	nil	$ 26,879	$113,879
Robert Lantos	$ 7,000	nil	$ 10,232	$ 17,232
Tedford Marlow	$14,000	nil	$147,319	$164,051
Bruce Mau	$27,000	nil	$ 2,571	$ 29,571
Anne Marie O'Donovan	$40,000	nil	$ 703	$ 40,703

(1) For Ms. Brooks, Ms. O'Donovan and Messrs. Clegg, Deitcher, Goldhar, Hall, Kirby, Lantos and Mau, the amounts shown under All Other Compensation includes the dollar value of the notional dividend equivalents (NDEs) DSUs granted to each outside director in respect of cash dividend payments in fiscal 2011.

The amount shown under All Other Compensation for Tedford Marlow represents consulting income paid to Mr. Marlow for consulting services and related expenses rendered to Indigo from November 2, 2010 through April 2, 2011.

OUTSTANDING SHARE-BASED AWARDS FOR DIRECTORS

The following table shows the total number of deferred share units allocated to each outside Director for their entire tenure as a director up to April 2, 2011, along with the market value of such units as calculated using the closing share price of Indigo's Shares on April 2, 2011.

	Share-Based Awards	
Name	**Number of DSUs that have not been redeemed[(1)] (#)**	**Market or payout value of DSUs that have not been redeemed ($)**
Bonnie Brooks	3,917	$ 50,448
Frank Clegg	20,853	$268,590
Jonathan Deitcher	33,317	$429,125
Mitchell Goldhar	10,052	$129,468
James Hall	52,683	$678,557
Michael Kirby	66,124	$851,672
Robert Lantos[(2)]	23,835	$306,997
Tedford Marlow	1,013	$ 13,047
Bruce Mau	7,082	$ 91,212
Anne Marie O'Donovan	3,344	$ 43,071

(1) Each deferred share unit vests immediately and represents the right of the director to receive, after termination of Board service, one Share issued from treasury.

(2) Robert Lantos resigned from the Board effective May 1, 2010. His balance of DSUs continues to earn Notional Dividend Equivalents in the form of DSUs with respect to cash dividend payments.

SECURITY BASED COMPENSATION ARRANGEMENTS

The following is the summary of the Company's security based compensation arrangements as of April 2, 2011.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights[(1)]**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities which may be issued in connection with outstanding options, warrants and rights)[(2)]**
Equity compensation plans approved by security holders	2,021,320 common shares	$14.23 for options $10.73 for DSUs[(3)]	492,734 common shares
Equity compensation plans not approved by security holders	none	n/a	n/a
Total	2,021,320 common shares	$14.23 for options $10.73 for DSUs	492,734 common shares

(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights includes 1,799,100 common shares in relation to the Stock Option Plan and 222,220 common shares in relation to the DSU Plan.

(2) Number of securities remaining available for future issuance under equity compensation plans includes 464,954 common shares in relation to the Stock Option Plan and 27,780 common shares in relation to the DSU Plan.

(3) The weighted-average exercise price of outstanding DSUs is calculated by dividing the grant date value of the issued and outstanding DSUs by the total number of issued and outstanding DSUs. The grant date value of the DSUs is determined by multiplying the Company's Share price on the date of the DSU grant by the number of DSUs granted on that date.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVES

Indebtedness of Directors and Executives Under Other Programs

No Officer, Director, employee or former Officer, Director or employee of the Company, or any associates of the foregoing is or was during fiscal 2011 indebted to the Company.

Report Presented by:

(Signed) MICHAEL KIRBY

(Signed) JAMES HALL

(Signed) FRANK CLEGG

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

In 2005, the Ontario Securities Commission adopted NI 58-101 — Disclosure of Corporate Governance Practices (the “National Instrument”) for listed companies with respect to corporate governance. Indigo has the following corporate governance practices.

Board Responsibilities and Composition

The Board of Directors is responsible for the supervision of our management and for approving our overall direction in a manner which is in our best interests. The Board of Directors participates fully in assessing and approving strategic plans and prospective decisions proposed by management. To ensure that the principal business risks that are borne by Indigo are appropriate, the Board of Directors receives periodic reports from management of its assessment and management of such risks. The Board of Directors regularly monitors our financial performance. This monitoring function often entails review and comment by the Board of Directors on various management reports. Our internal accounting and control procedures are monitored by the Audit Committee of the Board of Directors on behalf of the Board of Directors. The Audit Committee reviews detailed financial information contained in management reports and hears and acts upon the recommendations of Indigo’s auditors. In respect of senior management succession planning, the Board of Directors is involved in identifying candidates from within and outside Indigo to fill senior management positions. The mandate of the Board is attached as Appendix “A” to this circular.

As a practice, the Board of Directors approves significant corporate communications with shareholders. The Board of Directors currently consists of twelve members, ten of whom are standing for re-election. Mr. Joel Silver and Mr. Tedford Marlow, who were appointed to the Board of Directors in fiscal 2011, are being nominated for election. Indigo has historically endeavoured to have a sufficient number of directors to encourage a variety of opinions on matters which come before the Board of Directors, while at the same time limiting its membership to a number of directors that facilitates effective and efficient decision making. While there are no specific criteria for Board of Directors membership, we seek to attract directors with a wealth of business knowledge and a diversity of business experience. Directors make recommendations of new individuals to serve on the Board for consideration by the Human Resources and Compensation Committee as they become aware of suitable, available candidates.

A number of our directors sit on the boards of other reporting issuers. For each such director, the following table lists the name of the reporting issuer on whose board of directors the director currently serves.

Director	Reporting Issuer
Heather Reisman	Onex Corporation
Bonnie Brooks	Hudson’s Bay Company
Mitchell Goldhar	Calloway Real Estate Investment Trust
James Hall	International Datacasting Corporation Immunovaccine Inc.
Michael Kirby	The Bank of Nova Scotia Extendicare REIT MDC Partners Inc. Just Energy Income Fund Immunovaccine Inc.
Gerald Schwartz	Onex Corporation Celestica Inc. Bank of Nova Scotia (Honorary director)

Of the Board of Directors, Ms. Brooks, Ms. O'Donovan, and Messrs. Clegg, Deitcher, Goldhar, Hall, Kirby, and Mau are considered by the Board of Directors to be "independent directors" within the meaning of the National Instrument.

The remaining members are not independent within the meaning of the National Instrument, Ms. Reisman and Mr. Marlow being members of management, Mr. Schwartz being Ms. Reisman's spouse, and Mr. Silver being a former Indigo employee and now the President of Trilogy Growth, a partnership with Trilogy Retail Enterprises L.P., the majority shareholder of Indigo.

The Board of Directors therefore has a majority of independent directors. A number of directors possess an extensive knowledge of the retailing and distribution businesses in Canada, and their participation as directors contributes to the effectiveness of the Board of Directors.

The Board of Directors believes that eight of the twelve directors standing for election are independent directors who are free from any interests in or relationships with the significant shareholder or any of its affiliates. The Board of Directors believes that the membership on the Board of Directors of these eight directors fairly reflects the investment in Indigo by minority shareholders.

Indigo is controlled by Trilogy which, directly or indirectly, owns approximately 51.78% of the total number of our outstanding common shares and is a "significant security holder" within the meaning of the National Instrument.

Mr. Schwartz controls Trilogy.

Board Functioning and Independence

The Board of Directors adopted a corporate governance policy which, among other things, sets out those matters, in addition to those required by statute, which must be brought by the CEO or other senior management to the Board of Directors for approval. The corporate governance policy ensures that all major strategic decisions, including any change in our strategic direction and acquisitions and/or divestitures of a material nature, will be presented by management to the Board of Directors for approval. As part of its ongoing activity, the Board of Directors regularly receives and comments upon reports of management as to the performance of Indigo's business and management's expectations and planned actions in respect thereto.

Ms. Reisman is Chair of the Board of Directors and CEO of Indigo. In the view of the Board of Directors, the fact that Ms. Reisman occupies both offices does not impair the ability of the Board of Directors to act independently of management. They have reached this conclusion for the following reasons:

- eight of the Corporation's twelve directors are independent;
- the Audit Committee is comprised solely of independent directors and meets on a regular basis; and
- all of the Board's Committees are comprised exclusively of independent directors.

On May 18, 2006, the Board approved the appointment of Michael Kirby, a director, as our independent lead director (the "Lead Director") who is responsible for ensuring that the Board functions independently of management.

On May 18, 2006, the Board also adopted the following governance practices:

- at each regular meeting, the Board shall routinely meet with Ms. Reisman and the Corporation's Chief Financial Officer without the presence of other members of management to consider any matter not easily or appropriately discussed in the larger forum. The topics discussed may include the effectiveness of the meeting just concluded, the performance of any individual member of management or the Board, the performance of the Board itself, or, indeed, any matter of concern to any director;

- the Board, at each meeting other than unscheduled meetings called for the sole purpose of approving specific transactions, shall have a session in the absence of Ms. Reisman, or any other member of management;

- the performance of Ms. Reisman will be considered in the absence of Ms. Reisman and Mr. Schwartz at least once a year when her compensation is settled; and

- any member of the Board may provide to the Lead Director agenda items for discussion at any meeting and the Lead Director has the right to place items on the Board's agenda in his or her discretion.

The corporate governance policy provides a formal position description for the office of the CEO. The Board of Directors has approved formal corporate objectives which the CEO is responsible for achieving. The Board of Directors, the Human Resources and Compensation Committee and the CEO engage in regular ongoing dialogue regarding the performance of the senior management team in achieving Indigo's strategic objectives as recommended by management and approved by the Board of Directors.

Board Committees

The Board of Directors has an Audit Committee, a Human Resources and Compensation Committee and a Corporate Governance Committee. Each committee has a formal mandate outlining its responsibilities and its obligations to report its recommendations and decisions to the Board of Directors, as well as a written position description of each committee chair.

The Audit Committee is composed solely of independent directors. The Audit Committee is responsible for the oversight of Indigo's internal accounting and control systems. It receives and reviews the financial statements, annual and special meeting materials and other disclosure documents of Indigo and makes recommendations thereon to the Board of Directors before such statements, materials and documents are approved by the Board of Directors. The Audit Committee communicates directly with Indigo's auditors in order to discuss audit and related matters whenever appropriate. The Human Resources and Compensation Committee is composed solely of independent directors. The Human Resources and Compensation Committee has been charged by the Board of Directors with the responsibility of reviewing and making recommendations to the Board of Directors regarding compensation policies and practices. Specifically, the Committee's charter provides that the Committee shall: obtain appropriate information about compensation policies and payments by Canadian companies of a comparable size to Indigo; establish objectives, evaluate performance, recommend compensation, and develop a process for succession planning; review and approve appointments, promotions, terminations of senior management; and recommend grants of stock options subject to Board of Directors' subsequent ratification.

The Corporate Governance Committee is composed of three outside directors, all of whom are independent. It is responsible for proposing to the full Board of Directors new nominees to the Board of Directors and for assessing directors on an ongoing basis. The Committee uses an annual questionnaire of Board members on corporate governance and the effectiveness of the Board as a tool to assess individual directors and the Board as a whole. The Committee establishes qualifications for new directors, and evaluates proposed directors against this framework. This Committee performs the role which might otherwise be served by a nominating committee, and serves to educate new board members by providing an information package of all relevant governance material, and by inviting new members to conduct due diligence on the Corporation, and to interview existing independent Directors. The Committee promotes continuing education for existing Board members by providing informative material to the Board in advance of regular Board meetings and by providing regular business update presentations from key business units describing performance against stated business objectives. These educational sessions, which coincide with regular Board meetings, cover one or more aspects of the business, and typically follow an informal presentation and open discussion format. Committees are empowered to engage, or to request that management engage, outside advisors at our expense. The Board of Directors would consider any such request by an individual member of the Board of Directors on its merits at the time it was made.

Ethical Business Conduct

The Board of Directors has approved the Corporation's written code of conduct (the "Code"), which is intended to be observed by all directors and employees of Indigo. The Code is a set of standards and expectations that serves as a guideline for all employees to follow. A copy of the Code can be obtained on SEDAR at www.sedar.com. The Corporation also has a whistleblower policy pursuant to which directors, officers and employees are encouraged to report violations of the Code. The Company has implemented employee hotlines to enable employees to seek support and to report violations of the Code. The Board has concluded that such measures are appropriate and sufficient to ensure compliance with the Code.

The Board encourages and expects directors to disclose any perceived conflicts and to abstain from voting on any such matters.

Shareholder Communications

We endeavour to keep all shareholders well informed as to our financial performance, primarily by means of our annual and quarterly reports.

We shall provide to any person, upon request, a copy of: (i) our current Annual Information Form; (ii) the comparative financial statements for our most recently completed financial year together with the accompanying report of the auditor and related management's discussion and analysis ("MD&A"); and (iii) one copy of any of our interim financial statements and related MD&A for any subsequent fiscal periods, provided that we may require payment of a reasonable charge if the request is made by a person who is not one of our security holders.

With the approval of the Board of Directors, management has appointed Ms. Heather Reisman, our Chief Executive Officer, as the individual responsible for receiving shareholder inquiries and dealing with shareholder concerns. While being guided by regulatory requirements and Indigo's policies with respect to confidentiality and disclosure, Ms. Reisman is available for interviews by stakeholders, including analysts, the media, and investors. Ms. Reisman endeavours to respond promptly and appropriately to all such requests and/or inquiries.

AUDIT COMMITTEE INFORMATION

Information regarding our Audit Committee may be found in the section entitled "Audit Committee" in our Annual Information Form for the financial year ended April 2, 2011. A copy of the Annual Information Form can be obtained by contacting us at 468 King Street West, Suite 500, Toronto, Ontario, Canada, M5V 1L8 and will be available on SEDAR at www.sedar.com.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

We purchase and maintain liability insurance for the benefit of the directors and officers to cover liability incurred by such persons in such capacities. The policy provided for coverage in the amount of $21,000,000 with deductible amounts ranging from $0 to $100,000 for each of the years ended April 2, 2011 and April 3, 2010.

For the year ended April 2, 2011, the premium cost of this insurance was $100,548.

NORMAL COURSE ISSUER BID

On November 2, 2009, Indigo commenced a normal course issuer bid (“NCIB”). Under the NCIB, Indigo was entitled to purchase up to 1,227,229 of its Common Shares, representing approximately 5% of its total outstanding Common Shares, with a daily maximum purchase of 2,571 Common Shares. All Common Shares purchased under the NCIB were cancelled and returned to treasury.

Indigo entered into the NCIB because it believed that its Common Shares had been trading in a range that did not fully reflect the value of the Common Shares. As a result, the Board of Directors of Indigo believed that the purchase of Common Shares from time to time could be undertaken at prices that made the acquisition of such Common Shares an appropriate use of Indigo’s available funds and an appropriate mechanism for returning capital to its shareholders.

The NCIB expired on November 1, 2010. Under this NCIB, Indigo purchased 59,613 Common Shares for an average purchase price of $13.93.

All purchases made by Indigo under the bid were made in accordance with the rules of the TSX at market prices prevailing at the time of purchase.

A copy of the notice filed with the TSX with respect to Indigo’s NCIB can be obtained, free of charge, upon request, from Indigo’s Secretary at 468 King Street, Suite 500, Toronto, Ontario, M5V 1L8.

ADDITIONAL INFORMATION

Financial information for the financial year ended April 2, 2011, is provided in our comparative financial statements and MD&A which are included in the Annual Report. Security holders who wish to be added to the mailing list for the annual and interim financial statements and MD&A should contact us at 468 King Street West, Suite 500, Toronto, Ontario, Canada, M5V 1L8.

Copies of our current Annual Information Form, together with one copy of any document, or the pertinent pages of any document incorporated by reference in the current Annual Information Form; our most recently filed comparative annual financial statements, together with the accompanying report of the auditor, and any of our interim financial statements that have been filed for any period after the end of our most recently completed financial year; and this circular are available to anyone, upon request, from the Secretary of the Corporation, and without charge to our security holders.

The Annual Report (including the financial statements and MD&A), our current Annual Information Form, and other information relating to the Corporation is available on SEDAR at www.sedar.com.

DIRECTORS’ APPROVAL

The contents of this circular and its sending to our shareholders have been approved by our directors.

By Order of the Board of Directors

Kay Brekken
Chief Financial Officer

Toronto, Canada
May 31, 2011

Appendix “A”

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 Resources 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; and

- 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 contained 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; and
- review and assess 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 has adopted a Whistleblower Policy and a Code of Business Conduct (the "Code") for directors, officers and employees, monitors compliance with that Code and has made 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 behaviour, 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.