Indigo Books & Music Inc.

Annual Information Form

For the fiscal year ended March 28, 2020

June 23, 2020

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FORWARD-LOOKING INFORMATION

This Annual Information Form for Indigo Books & Music Inc. and its subsidiaries (collectively, "Indigo" or the "Company") contains forward-looking information within the meaning of Canadian provincial and territorial securities laws. Forward-looking information in this document includes, among other things, statements related to:

- the impact of the novel coronavirus ("COVID-19") pandemic and measures to contain it, including any impact to the Company's business, operations, and financial performance;
- the expectation regarding Indigo's capital expenditures, operations and use of future cash flow, financial position, financial results, business plans and strategies;
- Indigo's competitive position in the retail industry;
- the expectations regarding Indigo's store openings, renovations to, and closure of existing stores;
- the expectations regarding Indigo's product category extension plans;
- the expectations regarding Indigo's digital and e-commerce growth; and
- the status and impact of the development and implementation of Indigo's technological innovations and enhancements.

All statements other than statements of historical facts included in this Annual Information Form, may constitute forward-looking information. The words "believe," "intend," "scheduled," "plan," "focus," and "expect," and other expressions of similar import, or the negative variations thereof, and similar expressions of future verbs such as "will," "would," and "could," are predictions of, or indicate, future events and trends, and identify forward-looking information.

Forward-looking information is based on reasonable assumptions, estimates, analysis, and opinions of management made in light of its experience and perception of trends, current conditions, and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. The forward-looking information contained in this Annual Information Form is presented for the purpose of assisting the Company's security holders in understanding its financial position, results of operations, and strategic priorities and objectives as at, and for the periods ended, on the dates presented, and may not be appropriate for other purposes.

Although the Company believes that the expectations reflected in such forward-looking information are reasonable, such information involves risks and uncertainties, and undue reliance should not be placed on such information. Certain factors or assumptions are applied in making forward-looking information, and actual results may differ materially from those expressed or implied in such information. In particular, the ongoing COVID-19 pandemic has had and is expected to continue to have a material impact on the Company's business, operations and financial performance, the magnitude of which cannot be quantified at this time because of the significant uncertainty associated with: the extent, duration and severity of the pandemic itself; the impact of government restrictions, effects on consumer behaviour and other factors resulting from the pandemic, which are beyond the Company's control; and the Company's ability to mitigate such impacts. Investors should also refer to the Company's description of certain impacts of the ongoing pandemic below in "Statement on COVID-19".

Information about factors or assumptions that could cause actual results to differ materially from expectations and that are applied in making forward-looking information may be found in this document under “Risk Factors” as well as under “Risks and Uncertainties” in the Company’s Management Discussion & Analysis (the “MD&A”) (for the 52 weeks ended March 28, 2020 compared to the 52 weeks ended March 30, 2019) and elsewhere in the Company’s filings with Canadian securities regulators.

Except as required by law, the Company does not undertake any obligation to publicly update or to revise any of the forward-looking information contained or incorporated by reference in this document, whether as a result of new information, future events, or otherwise.

All forward-looking information contained in this Annual Information Form is expressly qualified by the foregoing cautionary statements.

STATEMENT ON COVID-19

In December 2019, COVID-19 surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and then characterized the outbreak as a pandemic on March 11, 2020. Shortly thereafter, numerous jurisdictions declared states of emergency and imposed restrictions such as closures, quarantine policies and social distancing measures, negatively impacting the Company’s retail operations, distribution centres, and head office operations. During this period, the communicable disease spread globally, with active outbreaks continuing in communities across Canada and the United States.

Initial Actions

In response to the complex and fast-evolving situation, the Company took the following proactive steps to protect the health and safety of its customers, employees and communities and to ensure the continuity of the Company’s business operations:

- announced the temporary closure of its retail locations on March 17, 2020 and made the difficult decision to temporarily lay-off 5,200 of its retail employees;
- closed its head office and support offices and implemented a remote work program to maintain its operations;
- enhanced health and safety precautions at its distribution centres to support its employees; and
- refocused its efforts to its online channel to keep the e-commerce business operational and optimized.

Actions Taken to Manage Liquidity

Following the initial actions in response to the COVID-19 pandemic, in order to preserve cash and take precautionary measures to manage liquidity risk, the Company:

- ceased its normal rent payments as of April 1, 2020 and is in negotiations with its landlords regarding rent abatements;
- assessed and leveraged applicable government business support programs for COVID-19, including the Canada Emergency Wage Subsidy;
- extended payment terms with many of its vendors and plans to reduce its inventory levels while maintaining an optimized assortment;
- implemented a cost reduction plan to minimize non-essential operating costs;

- reviewed the capital investment plans pre-dating COVID-19 to account for the widespread economic impact of COVID-19;
- suspended much of its planned marketing spend in the first half of fiscal 2021;
- reviewed its head office workforce model and commenced certain role restructurings;
- froze salary increases and elected not to pay discretionary fiscal 2020 annual incentive plan bonuses; and
- the Chief Executive Officer elected to temporarily forgo her salary.

While many of these actions are expected to be temporary, the duration and related financial impact cannot be reliably estimated at this time.

Current Status

On May 19, 2020, where permitted by local authorities, the Company began the phased re-opening of its retail stores. The Company's top priority remains the health and safety of its customers, employees and communities, and extensive health and safety measures have been employed based on the guidance and direction from public health authorities. As of the date of this Annual Information Form, the Company has re-opened 172 of its previously closed retail stores and recalled from temporary layoff 2,878 of its retail leadership and hourly employees. The Company continues its negotiations with its landlords regarding rent abatements to address the financial impacts of COVID-19. Separately, the Company has accelerated its review of its real estate portfolio, and in May 2020, made the decision to not renew the leases for 15 small format stores beyond June 2020.

Since the declaration of the COVID-19 pandemic, the Company's online channel has experienced significant growth in comparison to the prior year. The enhanced health and safety precautions taken to support its distribution centre employees ensured uninterrupted operation of the facilities and allowed the Company to meet the surge in online order volumes. The Company also accelerated the development of its omni-channel fulfilment infrastructure and piloted contactless curbside pick-up in several superstore format stores in an ongoing effort to keep its employees and customers safe.

As of the date of this Annual Information Form, the head office remains closed due to provincial restrictions and the Company is reviewing its health and safety plans for the eventual re-opening of the office and the gradual, phased return of head office employees.

Future Developments

The COVID-19 pandemic has negatively impacted the economy, disrupted consumer spending and supply chains and created significant volatility in financial markets on a global scale, the extent of which will depend on future developments that are highly uncertain and cannot be reliably forecasted. These future developments include new information regarding disease immunity and emerging actions taken to contain the virus, the potential recurrence of a second wave of significant infections, as well as ongoing consumer fears about the disease, which could adversely affect traffic to Indigo's stores, among others. Consumer spending and demand for the Company's product lines may also be negatively impacted by general macroeconomic conditions resulting from the COVID-19 pandemic. If the Company does not generate sufficient cash flows from operating activities, and sufficient funds are not accessed through other sources, the Company may not be able to cover its expenses, fund its capital needs and adequately respond to competitive challenges, which would have a material adverse impact on its business.

The foregoing statement on COVID-19 is not an exhaustive description of the actual or potential impact of the COVID-19 outbreak on the Company. Given this unprecedented period of uncertainty, there can be no assurances regarding: the closure status of retail locations as a result of COVID-19; the COVID-19-related impacts on the Company's business, operations and performance; credit, foreign currency, and liquidity risks generally; and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the company. Investors should also refer to the risks described below under "Risk Factors".

Indigo Books & Music Inc.

CORPORATE STRUCTURE

Name, Address, and Incorporation

Indigo Books & Music Inc. ("Indigo" or the "Company") was formed by the August 16, 2001, amalgamation of Chapters Inc. and Indigo Books & Music Inc. and is governed by the *Business Corporations Act* (Ontario). Subsequently, Indigo amalgamated on April 3, 2004 with Chapters Online Inc., and amalgamated on April 3, 2005 with CCBC Holdings (2001) Inc. and 1526656 Ontario Limited. Previously, Chapters Inc. was formed by the April 11, 1995 amalgamation of Coles Book Stores Limited and FICG Inc. All amalgamations were made pursuant to the laws of Ontario.

The registered and principal offices of Indigo are located at 620 King Street West, Suite 400, Toronto, Ontario, M5V 1M6. Indigo's corporate website address is *www.indigo.ca*.

Principal Subsidiaries

The following table identifies the names of the principal subsidiaries of the Company as of June 23, 2020, the percentage of voting shares owned by Indigo and the jurisdiction of incorporation or continuance of each such subsidiary.

Name of Subsidiary	Percentage Owned	Jurisdiction of Formation, Incorporation or Continuance
Indigo Design Studio, Inc.	100%	Delaware, USA
Indigo Cultural Department Store Inc.	100%	Delaware, USA
YYZ Holdings Inc.	100%	Delaware, USA

DESCRIPTION OF THE BUSINESS

Indigo is Canada's largest book, gift, and specialty toy retailer, with store locations in all ten provinces and one territory and online sales through the *www.indigo.ca* website and the Company's mobile applications. The Company is a leading gift destination with an extensive selection of books, paper, toys, baby and lifestyle products. Indigo operates its stores under the names *Indigo*, *Chapters*, *Coles*, *Indigospirit*, and *The Book Company*. The Company's digital platforms feature an extension of the in-store shopping experience, featuring an expanded selection of book titles and general merchandise.

Through Indigo Cultural Department Store Inc., its wholly-owned subsidiary, the Company also carries on a U.S. retail business, operating a retail store in Short Hills, New Jersey.

Product Categories

Books

Indigo currently has an active list of approximately 200,000 book titles purchased from more than 25 major publishers. In addition, the Company offers over twelve million titles through its digital platforms and, upon customer request, Indigo will special order any book currently in print.

The Company's category managers have significant book industry experience, each specializing in one or more subject areas such as fiction, non-fiction, lifestyle, and kids. Each year, category managers decide on approximately 30,000 new titles to include in the Company's active assortment and a similar number of titles to remove.

The Company typically plans to keep new book titles in stock for at least nine months. Initial orders are usually placed in larger quantities to ensure impactful displays and availability. Sales are analyzed weekly and monthly and, if appropriate, anticipated excess stocks are returned to suppliers. Approximately 85% of all book titles the Company purchases are eligible for return to suppliers for full credit. The Company is responsible only for the transportation and labour costs associated with these returns. Historically, the Company has annually returned approximately 23% to 28% of the books purchased under these arrangements.

The Company continues to support eReading through the Company's agreement with Rakuten Kobo Inc. ("Kobo"). The Company's customers can browse and discover eBooks on *www.indigo.ca* and the Company's mobile applications, which redirect customers to the Kobo website for purchase. These eBook purchases generate income for the Company through a revenue-sharing agreement with Kobo.

General Merchandise

The Cultural Department Store™ by Indigo is the world's first physical and digital meeting place inspired by living life fully and generously, and is filled with beautifully designed lifestyle products. The Company is also committed to becoming the premier year-round gifting destination in Canada with a curated assortment of home, fashion, paper, baby, toys and electronics products. Product selection, buying and price-setting activities for the general merchandise business are centralized at Indigo's head office in Toronto, Ontario and these activities seek to ensure that Indigo identifies a balanced mix between desirable third-party branded products and the Company's proprietary private label products. Indigo employs inventory management strategies to analyze sales data to maintain adequate inventory levels, make inventory adjustments and maximize full-price sales through its retail and digital channels.

With the !IndigoKids® concept available in stores across the country, the Company is a leading destination for developmental, creative, construction and technology toys and kids' and baby books. The Company has also introduced its IndigoBaby® concept shop featuring an extensive baby selection, including apparel, nursery & décor, strollers and gear, as well as parenting books and baby's first library.

While the sale of books and book-related products are expected to continue as a core product line, management believes that a curated selection of general merchandise allows the Company to better serve its unique market of booklovers, resulting in higher revenues and profitability. The Company highlights general merchandise products that complement its print business, including its proprietary gift and lifestyle merchandise, a strategy which continues to be integral to the Company's effort to provide customers with increasingly meaningful and life-enriching merchandise while generating healthy operating margins.

The Company's design and global sourcing team develops proprietary merchandise exclusively for Indigo. This team is based out of the Company's head office in Toronto and works closely with the Company's merchandising team to create products that are unique to the Company and serve to differentiate Indigo from other retailers. Products developed by the design and global sourcing team are designed to improve the breadth and quality of products offered by the Company. The majority of the Company's proprietary product assortment is globally-sourced.

Retail Stores

In response to the COVID-19 pandemic, Indigo temporarily closed its retail locations on March 17, 2020. On May 19, 2020, where permitted by local authorities, Indigo began the phased re-opening of its retail stores. As of the date of this Annual Information Form, the Company has re-opened 172 of its previously closed retail stores. Separately, the Company has accelerated its review of its real estate portfolio, and in May 2020, made the decision to not renew the leases for 15 small format stores beyond June 2020.

Superstores

As at March 28, 2020, the Company operated 88 superstores in leased locations throughout Canada, as well as one store in the United States, opened in October 2018 in the Mall at Short Hills, in Short Hills, New Jersey. These leased locations have a total selling area of over 2,000,000 square feet. Averaging over 23,000 square feet, the stores are designed to be destinations for culture-seekers, offering inspiring environments conducive to browsing and community-building.

The Company's superstores are built on superior book title selections, unique general merchandise offerings, cultural events, ambiance, convenient hours, competitive pricing, and knowledgeable staff. These stores are designed to be premier gifting destinations and promote repeat purchases. The extensive on-hand book selection and growth of general merchandise categories provide a large assortment of inspiring choices to the customer. Floor plans in newer stores also have been designed to create a "store within a store" concept for popular gifting areas such as the !IndigoKids shops and the Company's new IndigoBaby shop. With limited exceptions, each superstore also features a Starbucks café operated by Starbucks Coffee Canada, Inc.[1]

Small Format Stores

As at March 28, 2020, the Company operated 108 small format stores in leased locations with total selling area of nearly 300,000 square feet. Small format stores average approximately 2,700 square feet and are typically located in retail shopping centres, street-front retail areas, and central business districts. These stores are built on service, convenient locations, and product selection. Traditionally focused on carrying a wide range of popular books, the product mix in these stores has been expanded to include paper products and a limited selection of general merchandise, toys and baby products. Customers can

[1] Four (4) superstores in Canada do not have an in-store café. The Company operates Indigo-branded in-store cafes in one Canadian superstore and at the New Jersey, USA superstore.

also order a wider selection of products via kiosks within the store. The expanded range of non-book products in small format stores is part of the Company's continued focus on being a top-of-mind gifting destination for Canadians.

The Company believes that its portfolio of stores in core retail locations across Canada is a significant factor contributing to ongoing sales performance. The following table describes the geographic distribution of the Company's retail stores by brand as at March 28, 2020:

Location	Chapters	Indigo	Indigospirit	Coles	The Book Company
Newfoundland & Labrador	1	-	-	3	-
Prince Edward Island	-	1	-	1	-
Nova Scotia	2	-	2	9	-
New Brunswick	2	1	-	2	-
Quebec	1	3	-	3	-
Ontario	16	27	9	36	1
Manitoba	2	1	-	3	-
Saskatchewan	-	2	-	6	-
Alberta	9	8	6	8	-
British Columbia	3	8	1	17	-
Yukon	-	-	-	1	-
USA	-	1	-	-	-
TOTAL:	**36**	**52**	**18**	**89**	**1**

Digital Platforms

Indigo's digital platforms are designed to provide customers with a seamless omni-channel shopping experience. Customers can shop on *www.indigo.ca* via desktop, tablet, phone, the Company's mobile application, and in-store kiosks. These digital platforms are an extension of the in-store shopping experience with an expanded selection of book titles, eBooks through Kobo, as well as a broad assortment of paper, baby and lifestyle products. The Company also offers a marketplace assortment of giftable products, experiences, services, and subscriptions on *www.thoughtfull.co*.

These digital platforms provide a rich user experience, promoting customer loyalty and repeat purchases with an engaging experience that encourages customers to return frequently. In addition to offering an expanded variety of merchandise and a digital wish list ideal for gift registries, the Company's digital platforms offer a wide range of shipping options along with easy returns. Online purchases can be shipped to any of the Company's stores free of charge or fulfilled by a local store's inventory through an express pick-up option, with returns being accepted at any store free of charge. The Company's mobile application also offers a number of timesaving and stress-reducing features, such as managing wish lists, scanning any product in store for online purchase and shipping to the customer's home or to a gift recipient.

In fiscal 2020, the online channel represented approximately 17% of the Company's revenue. However, the Company experienced a significant acceleration of online sales in late March 2020, fueled by retail stores closures and government stay-at-home orders in response to the COVID-19 pandemic. As of the date of this Annual Information Form, the Company's online channel continues to experience significant growth in comparison to the prior year, though no assurance can be provided regarding the sustainability of this demand. Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

Loyalty Programs

Indigo's loyalty program, *plum® rewards* has two tiers: plum, a free points-based tier; and *plum PLUS*, an annual fee-based discount tier. The *plum rewards* program is an omni-channel program that allows members to earn and redeem points online and in-store, seamlessly. This program engages members through mass promotions and targeted one-to-one promotional offers, as well as invitations to exclusive events and member-only shopping experiences. The Company launched the *plum PLUS* membership program in fiscal 2020, replacing its former annual fee-based *irewards®* program. *plum PLUS* offers its members an immediate discount on eligible products, free shipping and the ability to earn points on almost every dollar spent at the Company's Canadian stores, as well as at *www.indigo.ca*.

The Company believes that loyalty programs are important in generating significant customer commitment and value. In addition, the programs enable the Company to better understand its customers, driving incremental sales and long-term customer engagement through optimization of the Company's strategy, marketing, and promotions. The Company continues to monitor and evolve the program constructs and communications to ensure the programs meet business objectives.

Intellectual Property

The Company's intellectual property rights, which include the trademarks used in its retail store formats, its proprietary product brands, those associated with its loyalty programs, and those on its online and digital platforms, are considered important assets of the Company. The Company believes that its branding adds value and is important to its competitive position.

The Company is the owner of numerous trademarks and trade names that are used and registered in Canada and in the United States. The Company also owns a number of domain names which are used in connection with its online business and digital presence. The domain names, which generally reflect its principal trademarks, include *www.indigo.ca*, *www.chapters.indigo.ca*, and *www.indigo.com*.

The Company has developed, and continues to develop, proprietary products and various digital innovations as well as other unique property and ideas. In order to protect these proprietary products, innovations and unique property and ideas, the Company has implemented strategic processes to register patents, copyrights, trademarks and domain names, both domestically and internationally.

Employees

Throughout fiscal 2020, the Company employed an average of approximately 6,000 people (on a full-time, part-time and casual basis) across its retail stores, distribution centres, and head and support offices. The number of part-time employees in the Company's retail stores and distribution centres fluctuates based upon seasonal demand. The Company does not have any collective agreements in place.

In response to the COVID-19 pandemic, Indigo temporarily closed its retail locations on March 17, 2020. The Company also made the difficult decision to temporarily lay-off 5,200 of its retail employees after paying wages for all scheduled shifts up until the end of March. As of the date of this Annual

Information Form, the Company has recalled from temporary layoff 2,878 of its retail leadership and hourly employees.

Information Systems

Indigo's technology group supports the Company's digital presence, infrastructure, and retail and enterprise technology. The technology group's primary mission is to be a growth and profit catalyst for Indigo, creating exceptional customer experiences and accelerating internal productivity through an empowered, highly collaborative and agile technology organization.

The Company maintains a centralized enterprise resource planning (ERP) system to enable all supply chain and finance functions. The technology team also supports all of Indigo's in-store technology, including mobile tools for the Company's workforce, kiosks and point of sale (POS) systems. The Company's digital platforms are built and maintained internally. The Company's primary technology focus has been to optimize its digital presence and expand its omni-channel capabilities. Indigo continues to invest in information technology to deliver solutions that improve customer service and process efficiencies, and to ensure compliance and controls remain robust.

Supply Chain

The Company's supply chain includes the end-to-end flow of product and information from product origin to the final retail customer. Cross-functional departments throughout the organization are mobilized and focused to apply best in class supply chain principles and processes to enable profitable growth. The Company continues to invest in its supply chain processes to improve the flow of merchandise by upgrading systems, increasing capacity and improving productivity.

Indigo's distribution network consists of three leased distribution centres, with over 800,000 square feet of total capacity. Two of the distribution centres are located in Brampton, Ontario, and consist of a dedicated retail distribution centre and an adjacent online distribution centre. The Company also operates a distribution facility in Calgary, Alberta, which serves the Company's Western Canadian retail stores and online customers. In transporting goods to its distribution centres and retail stores, the Company uses third party common carriers across various modes of transportation, such as road, railway and ocean carriers. The Company also uses third party services to deliver its e-commerce customer orders. Indigo continuously evaluates third party logistics options to assist with peak seasonal requirements and to support ongoing growth.

Seasonality

The Company's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to those of other retailers that are highly dependent on the holiday sales season. A disproportionate amount of revenues and profits are earned in the Company's third quarter. As a result, quarterly performance is not necessarily indicative of the Company's performance for the rest of the year, and the impact of certain Risk Factors identified below would have a disproportionate impact to the Company's financial performance should such an event(s) occur during the holiday season.

For fiscal 2021, revenue and net earnings (losses) may not follow historic patterns of seasonality due to the impact of the COVID-19 pandemic.

Environmental Sustainability

Indigo is focused on reducing its impact on the environment through ongoing improvements to its head office, store and distribution centre operations. The Company pays fees to all applicable provincial stewardship programs to help fund the costs of collecting, transporting, recycling, and safely disposing of consumer waste that results from the Company's selling activities. These fee contributions vary across provinces. The Company has formed a Sustainability Round Table consisting of cross-functional leaders from across the organization, a dedicated champion, and an executive sponsor. The team's objective is to provide updates and escalate opportunities for Indigo's environmental responsibility and social accountability initiatives.

Corporate Social Responsibility

Indigo is fully committed to doing business in a legal, ethical and socially responsible manner. The Company has an Ethical and Social Compliance Program which affirms Indigo's strong position on key labour practices around the world that includes, without limitation, the Company's position against child labour, forced labour, discrimination and abuse/harassment, as well as fair wages, benefits, working hours, and health and safety practices. The Company also has a Vendor Code of Conduct which is designed to ensure that the Company's suppliers, vendors, agencies, distributors, service providers, and contractors (collectively, "vendors") have a clear understanding of how Indigo expects its vendors to conduct their business and embrace Indigo's commitment to integrity.

Children's Literacy and Community Outreach

Through the Indigo Love of Reading Foundation (the "Foundation"), the Company is committed to addressing the underfunding of Canadian elementary school libraries and the resulting literacy challenges children face in such schools. The Foundation's goal is to raise awareness of the lack of funding in Canadian schools and close the budget gap by providing new books and educational resources to high-needs elementary schools. The Foundation accomplishes this goal through its annual Literacy Fund grants of $1.5 million and its grassroots Indigo Adopt a School program that unites Indigo staff, local schools, and their communities to raise money for new and engaging books for elementary school libraries. With the support of the Company, its customers, employees, and suppliers, the Foundation has committed over $33.5 million to more than 3,000 high-needs elementary schools across Canada since 2004.

Material Transactions with Directors or Officers

During fiscal 2020, the Company purchased goods and services from companies in which Mr. Gerald W. Schwartz, who is the controlling shareholder of Indigo, holds a controlling or significant interest. In fiscal 2020, the Company paid $2.2 million for these transactions (2019 - $3.5 million). As at March 28, 2020, Indigo had $0.1 million payable to these companies under standard payment terms and $1.0 million of restricted cash pledged as collateral for letter of credit obligations issued to support the Company's purchases of merchandise from these companies (March 30, 2019 - $0.2 million payable and $1.0 million restricted cash). All transactions were measured at fair market value and were in the normal course of business, under normal commercial terms, for both Indigo and the related companies.

GENERAL DEVELOPMENT OF THE BUSINESS

It has been over 20 years since the Company launched its first superstore with a commitment to enriching Canadians' lives through books and complementary products. Much has changed since then, and continues to change, in both the book industry and the larger retail landscape. Indigo has been proactive in transforming its business in both its retail stores and digital offerings. The *www.indigo.ca* website has expanded dramatically, offering customers an increased number of titles at a lower cost than a traditional physical bookstore along with a broad range of general merchandise, much of which is unique to Indigo. In addition, digital channels have provided customers with instant accessibility, wide selection, and lower prices.

The distinction between physical retail and digital retail is increasingly blurred as customers expect to have a seamless experience with the Indigo brand regardless of channel. Recognizing this, the Company is continuing to focus on improving the omni-channel customer experience with initiatives that better integrate physical and digital retail. The Company’s priorities are to drive a customer inspired retail and digital transformation, build a truly superior gifting experience, and become the best rewarding retail employer in Canada.

The recent outbreak of the COVID-19 pandemic has placed significant limitations on the Company’s ability to conduct its business. The Company is focused on being agile and taking the necessary steps to service its customers in the face of the unprecedented and continuing impact of COVID-19. This includes a commitment to the Company's strategic priorities outlined below. See “Statement on COVID-19” above for more information.

The Company’s development over the last three years and key strategies going forward are outlined below.

Drive a Customer Inspired Retail Transformation

The Company’s physical stores were transformed in recent years as part of the roll out of Indigo’s new store concept and its focus on being a truly superior gifting destination. The new store concept reflects Indigo’s transformation from a bookstore to the Cultural Department Store; a physical and digital meeting place inspired by and filled with books, music, art, ideas, and beautifully designed lifestyle products. Indigo believes in real books, in living life fully and generously, in being kind to each other and that stories – big and little – connect us.

Over the past three years, the Company has rebranded and renovated 24 stores and opened five new stores to improve the customer experience and product offerings across key gifting categories. The following table summarizes the Company’s retail store transformations over the past three years:

	2020	2019	2018
Stores Opened			
Superstores	**—**	4	—
Small format stores	**—**	—	1
	—	4	1
Stores Rebranded, Relocated, or Renovated			
Superstores	**3**	13	5
Small format stores	**—**	—	3
	3	13	8
Stores Closed			
Superstores	**1**	1	3
Small format stores	**7**	8	1
	8	9	4
Number of Stores Open at Year-End			
Superstores	**88**	89	86
Small format stores(1)	**108**	115	123
	196	204	209
Selling Square Footage at Year-End (in thousands)			
Superstores	**1,941**	1,962	1,887
Small format stores	**279**	287	308
	2,220	2,249	2,195

(1) Subsequent to the Company's fiscal year end, in May 2020 the Company decided not to renew the leases for 15 Small Format stores beyond June 2020.

Indigo continues to explore initiatives around further integration of its physical and digital platforms. This includes a mobile checkout POS solution piloted in fiscal 2018 and rolled out in 2019 to facilitate a more connected end-to-end customer experience, as well as expediting customer queues during busy gifting periods. In fiscal 2019, the Company piloted an express pick-up checkout solution, which allows customers to order online and pick up their order in store within the same day, which was then more broadly implemented in fiscal 2020.

Indigo launched a new IndigoBaby concept shop in fiscal 2020 at Indigo CF Sherway Gardens in Toronto, Ontario, as a premier specialty destination for expectant and new parents. The new concept offers a curated assortment of must-have essential products in-store, and an extensive online assortment that can be shipped home. Opened in fiscal 2019, the Company continues to operate its concept store in Short Hills, New Jersey, and gather learnings regarding American customers' engagement with the Indigo brand.

Drive a Customer Inspired Enhanced Digital Platform

In addition to reshaping Indigo's physical store offerings, the Company continues to invest heavily in its digital platforms. The Company has a dedicated team solely focused on the agile delivery of digital products and services to further enhance the customer experience. The Company continues its strong social media presence across Facebook, Instagram, Pinterest, and Twitter, with half a million followers on

Facebook and over 350,000 on Instagram. In fiscal 2018, the Company focused on several enhancements to improve and simplify the customer experience across its digital platforms.

In the third quarter of fiscal 2020, Indigo launched *www.thoughtfull.co*, a gifting site dedicated to helping customers find unique and meaningful gifts. Thoughtfull™ provides a last-minute gifting solution with digitally fulfilled delivery for a selection of its assortment and Thoughtfull's guided navigation tool, the Thoughtfull Assistant, helps customers find the perfect gift from its marketplace assortment of giftable products, experiences, services, and subscriptions. In fiscal 2020, the Company also launched a new product information management system, which will provide the foundation for an enhanced digital experience.

In fiscal 2018, the Company expanded its online distribution centre and acquired a new facility in Western Canada to support its growth and to improve service levels to customers nationally, especially during the Company's peak third quarter holiday period. In fiscal 2019, the Company's Calgary distribution centre began supporting the Company's Western Canadian retail stores and in fiscal 2020 started serving online customers in the Western Canada. Going forward, Indigo will continue to focus on driving end-to-end productivity and process efficiency in the supply chain and across the Company.

Optimizing the Company's *plum rewards* loyalty program has also been a key area of focus over the past three years. The Company now has a two-tiered loyalty program under the *plum rewards* brand, *plum* and *plum PLUS*, the latter of which was launched on a national scale in fiscal 2020, replacing the Company's *irewards* program, which is being phased out throughout fiscal 2020-2021. As an annual fee-based discount program, *plum PLUS* offers member discounts and free shipping every day as incremental benefits to the redeemable points offered on almost all products purchased. The success of this program creates a deeper understanding of the Company's customers, as well as direct marketing and communication opportunities with Indigo's best customers. Going forward, the Company will continue to increase its capabilities to utilize this data to personalize each touch point with customers and provide a rich omni-channel shopping experience.

Build a Truly Superior Gifting Experience

Indigo is committed to becoming the ultimate year-round gifting destination in Canada for gifts that touch the heart and soul. The gifting experience for the major seasonal holidays and for everyday gifting occasions are supported through the Company's expanded assortment of books, lifestyle and baby offerings, and toys. Indigo's focus on making gifting joyful and easy for customers includes a wide selection of gift wrap and greeting cards, as well as tools to help customers make the best gifting decisions. In fiscal 2018, "The Gift Shop", an expanded online gifting experience, was launched on Indigo's digital channels, creating an interactive and curated shopping experience with functionalities to view gift ideas in multiple ways, including by gifting occasion or by recipient. In fiscal 2019, Indigo launched a digital gift registry where customers can create, manage and share their birthday, wedding or baby registry on *www.indigo.ca* and on the Indigo mobile application. Gifts listed on registries can be purchased either in stores or on the Company's digital platforms. In fiscal 2019, Indigo also introduced its very own iconic brand gift wrap program with offerings for adults and kids. With a strong commitment to reducing waste, Indigo focused on the design and quality of its branded gift boxes and gift bags to ensure that each is reusable and can be used for treasured keepsakes or to gift again. The IndigoBaby assortment has significantly expanded over the past three fiscal years, and in fiscal 2020, the Company launched an easy-to-navigate and beautifully designed dedicated registry to take the guesswork out of what expectant parents need for their new arrival. As noted above, in fiscal 2020, the Company also launched the *www.thoughtfull.co* online gifting platform.

The enhanced gifting assortment is supported by the Company's design and global sourcing team that leads the design and development of Indigo's proprietary merchandise. These private-label products are created by the Company's in-house creative team and are manufactured by third parties exclusively for Indigo. This aspect of the business is part of the Company's focus on providing customers with meaningful and giftable merchandise available only at Indigo. The Company is committed to adapting and improving its proprietary product development capability, as well as expanding its line of gift and lifestyle merchandise which includes home, paper merchandise, and fashion accessories. To further integrate the design and global sourcing teams and enhance its proprietary offerings, in fiscal 2020, the Company closed its New York, New York design studio and relocated the design and global sourcing functions to Indigo's head office in Toronto.

Become the Best Rewarding Retail Employer in Canada

While a key focus of the Company's business is evolving to meet the emerging needs of customers, Indigo is also focused on becoming the best rewarding retail employer in Canada by driving a high performance, growth culture and aspiring for operational excellence to support the Company's continued evolution and new business strategies.

The Company's ambition is to be the best rewarding retail employer, not only in pay, but in a holistic view of the employment relationship that includes a sense of purpose, meaningful relationships, benefits and flexible work opportunities. This Company-wide initiative focuses on driving engagement, high performance and operational excellence while removing inefficiency from the Company's work processes. There are several initiatives underway across the Company including reinforcing Indigo's unique culture through values-based leadership. As well, the Company is focusing on the development of high-performing teams where individuals are encouraged to chart their own career paths and apply their strengths to meaningful work, allowing them to bring their best selves to work. This work involves partnerships across all areas of the Company and is expected to continue to evolve over the next several years.

In fiscal 2020, Indigo continued to attain record-high employee engagement and customer satisfaction scores of 89% and 77%, respectively, as well as receiving external recognition for its employee and customer experience. Indigo received a Diversity and Inclusion award in 2019 from *Universum*, an organization that annually surveys over 1,700,000 students and professionals worldwide. For the 2019 Canada edition of the award, 23,000 students from more than 150 Canadian colleges and universities were asked to rank employers on *Universum's* Diversity & Inclusion Index. Indigo ranked in the top 25 out of 140 employers from different industries in both the Business and Liberal Arts/Humanities categories. This award recognizes companies perceived by students across Canada to be the most diverse and inclusive employers in the country. Indigo was also named a Top Toronto Employer Brand in *Hired's* third annual Brand Health Report. For reference, *Hired* asks its marketplace of tech talent based in Toronto to rank the local companies they find most attractive to work for every year to determine which factors job seekers prioritize when evaluating a potential employer. In addition, Forbes selected Indigo as one of Canada's Best Employers in 2019 based on an independent survey from a vast sample of more than 8,000 Canadian employees working for companies employing at least 500 people in their Canadian operations. Indigo was ranked 125th out of all selected organizations and 12th in the retail category.

RISK FACTORS

The Company is exposed to a variety of risk factors and has identified the principal risks inherent in its business. The relative severity of these principal risks is impacted by the external environment and the Company's business strategies and, therefore, will vary from time to time.

The Company cautions that the following discussion of risk factors that may affect future results is not exhaustive, including those related to the impact of COVID-19 on the Company's business, operations and performance. The Company's performance may also be affected by other specific risks that may be highlighted from time to time in other public filings of the Company available on the Canadian securities regulatory authorities' website at *sedar.com*. When relying upon forward-looking information to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties, assumptions, potential events, industry, and Company-specific factors that may adversely affect future results. The Company assumes no obligation to update or revise previously filed public documents to reflect new events or circumstances, except as required by law.

COVID-19 Emerging Risk

The COVID-19 pandemic creates a number of risks and uncertainties for the Company's business, which could significantly impact the Company's results of operations going forward and the forward-looking statements made herein.

As an emerging risk, the duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of any current or future government and central bank interventions. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may, directly or indirectly, materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty.

Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions in the economy. Economic conditions, both on a global scale and in particular markets, may have significant effects on consumer confidence and spending. A decline in consumer spending, especially during the November/December holiday season, could have an adverse effect on the Company's financial condition. Health pandemics, such as the current COVID-19 outbreak, and the related governmental, private sector and individual consumer responses could reduce retail traffic and consumer spending, result in temporary or permanent closures of stores, offices, and factories, and could disrupt the material flow of goods, which could have an adverse effect on the Company's financial situation. Other variables, such as unanticipated increases in merchandise costs, higher labour costs, increases in shipping rates or interruptions in shipping service, foreign exchange fluctuations, political uncertainty, disruptions in international trade, the impact of natural disasters, geo-political events or acts of terrorism, or higher interest rates or unemployment rates, could also unfavourably impact the Company's financial performance.

Real Estate

The Company leases all of its retail locations and while it attempts to renew these leases as they come due on favourable terms and conditions, it is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred due to unanticipated store closings or relocations, could also unfavourably impact the Company's performance.

As a result of the COVID-19 pandemic, the Company temporarily closed its retail stores on March 17, 2020. Beginning in April 2020, the Company suspended rent payments under a number of its real estate leases in response to business disruptions from COVID-19. The Company is currently negotiating with its landlords to abate certain rent expense in response to the financial impact of COVID-19, as discussed; however, there can be no assurance that such negotiations will be successful and there are additional risks associated with these suspensions.

The inability of the Company to enter into suitable rent relief arrangements could potentially have a cumulative material effect, depending on the number of locations impacted, the materiality of such locations to the overall business, and any dispute under these leases that may result in litigation with the respective landlord.

Investors should also refer to the Company's description of certain impacts of the ongoing pandemic described above under "Statement on COVID-19".

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk is managed by continuously monitoring actual and projected cash flows, taking into account the historical seasonality of the Company's revenue and working capital needs.

However, cash flows from operating activities could be negatively impacted by decreased demand for the Company's product offerings, which could result from factors such as, but not limited to, adverse economic conditions resulting from the COVID-19 pandemic and associated changes in consumer preferences, or by the impact of social distancing policies and general public health sentiment on retail store traffic, and or the Company's ability to safely fulfill orders through its online distribution network.

Based on the Company's current business plan, liquidity position, cash flow forecast, and factors known to date, including the currently known impacts of COVID-19, it is expected that the Company's current cash position and future cash flows generated from operations will be sufficient to meet its working capital requirements for fiscal 2021. However, the Company's ability to fund future cash requirements will depend on its future operating performance, which could be affected by risks associated by the COVID-19 pandemic, as discussed. The Company could seek to raise additional funding in the event it fails to maintain sufficient liquidity, as it currently has no outstanding debt financing, and reduce capital spending if necessary. However, the COVID-19 pandemic creates a number of additional risks such as the negative impact on debt and equity capital markets, including the ability to access capital at a reasonable cost and the trading price of the Company's securities, which could impact future capital raising efforts if required by the Company. A long-term decline in capital expenditures may negatively impact the Company's revenue and profit growth.

Workplace Health and Safety

The failure of the Company to adhere to appropriate health and safety procedures and to ensure compliance with applicable laws and regulations could result in employee injuries, productivity loss, and liabilities to the Company. To reduce the risk of workplace incidents, the Company has health and safety programs in place and has established policies and procedures aimed at ensuring compliance with applicable legislative requirements.

During the COVID-19 pandemic, the health and safety of the Company's customers, employees and communities have remained a top priority in the face of evolving workplace risks and practices related to the pandemic. The Company has put in place and employed extensive health and safety measures across all of it operations based on the guidance and direction from public health authorities. If government authorities introduce more stringent health and safety laws, the Company may incur additional costs to comply with these requirements, which may have an adverse impact on the Company's financial results. Further, if the Company is unable to meet the current or future health and safety laws, regulations and industry standards related to COVID-19, or despite the Company's efforts and precautions, employees are exposed and infected by the COVID-19 virus, it could have an adverse effect on the Company's abilities to re-open and operate its stores, maintain operations at its distribution centres, or reopen and operate its head office and an impact to customer and employee engagement, all of which could have an adverse effect on the Company's operations and financial performance.

Remote Work

In addition to closing its retail locations, in response to the COVID-19 pandemic the Company also had to close its head office and implement a remote work program to maintain its operations. While employees are generally able to perform their functions in a remote setting from their homes or other locations, certain additional risk factors may negatively impact the Company's ability to perform its operations efficiently, securely and without interruptions. These risk factors, any of which could have an adverse effect on the Company's operations and financial performance , include: increased cybersecurity threats while duties are performed outside the Company's regular offices, increased dependence on telecommunication links such as Internet access in employees' homes, decreased efficiency due to the change in equipment and network speeds used for data processing and use, the timely dissemination and exchange of information in a remote workforce environment and the dependence on certain functions that are difficult to efficiently conduct outside a regular workplace.

Competition

The retail industry is highly competitive and continues to experience fundamental changes in a rapidly evolving environment.

Specialty and independent bookstores, other book superstores, regional multi-store operators, mass merchandisers, supermarkets, retail pharmacies, warehouse clubs, internet booksellers, publisher direct-to-consumer operations and other retailers continue to sell physical book offerings, often at substantially discounted prices. Many of these competitors, as well as other retailers, also offer digital reading options, which compete for the share of the customer's discretionary book and entertainment budget.

The general merchandise retail landscape also features significant competition from established retailers and emerging disruptive digital retail options, and there can be no assurances that the Company will be able to gain market share. The Company competes with local, regional, national, and international retailers and direct-to-consumer companies that sell gift and specialty toy products through both physical and digital platforms. New competitors frequently enter the market and existing competitors may increase market presence, expand merchandise offerings, add new sales channels, or change their pricing methods, all of which increase competition for customers.

Many of the Company's current and potentially future competitors are larger, have greater brand recognition, greater online presence and access to greater financial, marketing and other resources. The size and resources of such competitors may allow them to compete more aggressively, which could adversely impact Indigo's revenue, market share and operating margins. In addition, increased efforts by such competitors, including the introduction of new and innovative products and services as well as aggressive expansion, merchandising or discounting by competitors, could reduce the Company's revenue, market share, and operating margins.

Consumer Trends

The Company's success largely depends on its ability to anticipate and respond to shifts in consumer trends in an agile manner. The general merchandise business is particularly susceptible to changing consumer preferences that cannot be predicted with certainty. If the Company is unable to adequately respond to changing consumer trends or sales forecasts that do not match customer demand, it could experience higher inventory markdowns or an inventory shortage, both of which would have an adverse effect on sales and profitability. This risk is mitigated by the Company's focus on building an assortment of innovative products which resonate with consumers, including through its proprietary brands, and by the breadth of the Company's product range across diversified categories.

Reliance on Third Parties in Omni-Channel Business

As e-commerce continues to become a larger component of the Company's omni-channel business, Indigo relies on third-party logistics partners, such as Canada Post, to fulfill sales transactions with its customers in a dependable and timely manner. Changes in geographic coverage, service levels, capacity levels, and labour disruptions at the Company's logistics partners, including as a result of COVID-19, may adversely affect Indigo's business and financial results.

Strategic Initiatives

The retail industry is constantly changing and management is committed to the Company's continued growth and success. Expansion into new markets, or the launch of new initiatives could place a significant strain on the Company's management, operations, technical performance, financial resources, and internal financial control and reporting functions. The Company will continue to change and modify its strategy based on its economic environment and there can be no assurances that Indigo's strategy will be successful.

Relationships with Suppliers

Indigo relies heavily on suppliers to sell books and general merchandise on acceptable terms and within agreed upon timelines. These suppliers are impacted by, among other things, increases in labour and input costs, labour disputes and disruptions, regulatory changes, political or economic instability, natural disasters, trade restrictions, tariffs, currency exchange rates, transport costs and other factors, which more recently, include the closure of national borders and disruption of merchandise deliveries due to the effects of the COVID-19 pandemic. To date, the Company has not experienced any significant difficulty in obtaining merchandise and considers its sources of supply to be adequate, however, the Company's flow of merchandise could be affected by the COVID-19 pandemic, including from countries such as China and India. Collectively and individually, these factors are beyond the Company’s control and a failure to maintain favorable terms and relationships with these suppliers, or the absence of key suppliers, may affect the Company’s ability to compete in the marketplace. As Indigo continues to source a greater portion of its products from overseas, events causing disruptions to imports, changes in trade restrictions and tariffs, or currency fluctuations could negatively impact the Company’s revenues and margins.

The Company is also reliant on third parties to provide services essential to daily operations. Any disruption to these third-party services could have an unfavourable impact on the Company’s performance and reputation, including significant negative impact in areas such as supply chain logistics, software development and support, transaction and payment processing, and other key processes. The Company cannot make any assurances that it would be able to arrange for alternate or replacement contracts, transactions, or business relationships to mitigate the impact of disruptive events.

Inventory Management

The Company must manage its inventory levels to successfully operate the business. Inventory purchases are based on several variables, such as market trends and sales forecasts. An inability to respond to changing customer preferences or sales forecasts which do not match customer demand may result in an inventory shortage or excess inventory that must be sold at lower prices. While the majority of the Company’s book purchases are eligible for return to suppliers at full credit, the evolution of the Company’s product assortment, namely general merchandise items, means the Company has an increasing amount of non-returnable inventory. The Company monitors the impact of customer trends on inventory turnover and obsolescence, but inappropriate inventory levels could negatively impact the Company’s revenue and financial performance.

Product Quality and Product Safety

The Company sells products produced by third-party manufacturers and relies on vendors to provide quality merchandise compliant with all applicable laws. Some of these products may expose the Company to potential liabilities and costs associated with defective products, product handling, and product safety. As part of its general merchandise assortment, the Company also sells food and personal care products and is subject to the distinctive risks associated with those products.

These risks could result in harm to the Company’s customers and expose Indigo to product liability claims, damage the Company’s reputation, and lead to product recalls. Liabilities and costs related to product quality and product safety may also have a negative impact on the Company’s revenue and financial performance. The Company has policies and controls in place to manage these risks, including maintaining liability insurance and offering product safety guidance to third-party manufacturers.

Information Technology and Digital Platforms

The Company increasingly depends on the proper operation of its information technology platforms and those of third parties to successfully conduct daily business functions, maintain its competitive position in the marketplace and enable its growth strategy. The Company continues to invest in new technologies to expand its competitiveness and customer experience. Any failure in the implementation of these solutions, the operation of current information technology systems, platforms or third-party cloud-based processing could result in a significant disruption to the business, potentially negatively impacting revenue or damaging the Company's reputation. Furthermore, the Company continues to rely on legacy technologies and systems and any failure to maintain and support these legacy systems or migrate to new technology systems could impact Indigo's operational effectiveness.

Cybersecurity

A failure in, or breach of, the Company's information technology, operational or security systems or physical infrastructure, or those of Indigo's third-party vendors, cloud-based services, and other service providers, including as a result of cyberattacks, could disrupt the business, result in the disclosure or misuse of confidential or proprietary information, damage Indigo's brand and reputation, lead to temporary or permanent loss of data, increase the Company's remediation costs and legal liabilities, and impact its financial position and/or ability to achieve its strategic objectives. Although Indigo has business continuity plans, cyber insurance coverage and other safeguards in place, along with robust information security procedures, employee security awareness training and controls, the Company's business operations may be adversely affected by significant and widespread disruption to Indigo's physical information technology infrastructure or operating systems that support the Company's business and customers. As cyber threats continue to evolve and become more difficult to detect, the Company may be required to expend significant additional resources to continue to modify or enhance Indigo's protective measures to protect against, among other things, security breaches, computer viruses and malware, phishing, hacktivism, cyberterrorism, denial-of-service attacks, credentials compromise, or to investigate and remediate any information security vulnerabilities. Additionally, please see the "Remote Work" Risk Factor above.

Disaster Recovery and Business Continuity

Weather conditions, as well as events such as political or social unrest, natural disasters, disease outbreaks such as the COVID-19 pandemic, or acts of terrorism, could have a material adverse effect on the Company's operations and financial performance. Moreover, if such events were to occur at peak times in the Company's business cycle, the impact of these events on operating performance could be significantly greater than they would otherwise have been. The Company has procedures in place to reduce the impact of business interruptions, crises, and potential disasters, but there can be no assurance that these procedures can fully eliminate the negative impact of such events.

Key Personnel

The Company's continued success will depend to a significant extent upon securing and retaining sufficient talent in management and other key areas. Employees have developed specialized skills and an in-depth knowledge of the business. Failure to effectively attract and retain talented and experienced employees or failure to establish adequate succession planning could result in a lack of requisite knowledge, skill and experience. If the Company does not continue to attract qualified individuals, train them in Indigo's business model, support their development, and retain them, the Company's performance could be adversely impacted and growth could be limited. The loss of the services of key personnel, particularly the Chief Executive Officer, could have a material adverse effect on the Company. To mitigate the risk of personnel loss, the Company has implemented a number of employee engagement and retention strategies.

Corporate Reputation

The Company's corporate reputation and those of its brands are very important to Indigo's success and competitive position. The Company's reputation and, consequently, its brand, may be negatively affected by various factors, some of which may be outside of Indigo's control. Adverse events may damage the Company's reputation and brands at the corporate or retail level. Should negative factors materialize and diminish Indigo's brand equity, there could be a material adverse effect on the Company's operations and financial performance.

Intellectual Property

Infringement of the Company's intellectual property could negatively affect the Company's revenue, profitability and reputation. While the Company is not currently aware of any infringement or material challenges to the use of its trademarks and domain names in Canada or the United States, the Company has a strategy and processes in place to protect and vigorously defend its intellectual property.

Credit, Foreign Exchange, and Interest Rate Risks

Indigo is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations to the Company. Credit risk primarily arises from accounts receivable, cash and cash equivalents, short-term investments, and derivative financial instruments.

Accounts receivable primarily consists of receivables from financial institutions for the Company's sales by credit card tender, recoveries of credits from suppliers for returned or damaged products, tenant allowances receivable from landlords for renovations and lease inducements and receivables from other companies for sales of products, gift cards, and other services. Credit card payments have minimal credit risk and the limited number of corporate receivables is closely monitored.

The Company limits its exposure to counterparty credit risk related to cash and cash equivalents, short-term investments, and derivative financial instruments by transacting only with highly-rated financial institutions and other counterparties and by managing within specific limits for credit exposure and term to maturity.

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. dollars. Decreases in the value of the Canadian dollar relative to the U.S. dollar could negatively impact net earnings since the purchase price of some of the Company's products are negotiated with vendors in U.S. dollars, while the retail price to Indigo's Canadian customers is set in Canadian dollars. The Company also has a U.S. retail store that earns revenue in U.S. dollars and incurs U.S. dollar expenses. The Company maintains a hedging program to mitigate foreign exchange risk.

The Company's interest income is sensitive to fluctuations in Canadian interest rates, which affect the interest earned on Indigo's cash and cash equivalents and short-term investments. The Company does not currently have any debt and all interest expense recognized in fiscal 2020 relates to its retail lease liabilities. The Company has minimal interest rate risk and does not use any interest rate swaps to manage its risk.

Legal Proceedings

In the normal course of business, Indigo becomes involved from time to time in litigation and disputes. The outcomes of regulatory investigations, litigation and arbitration disputes are inherently difficult to predict, which creates the risk that an unfavourable outcome in any of these matters could negatively affect the Company's business, reputation, financial condition and performance. Regardless of the outcome, litigation may result in substantial costs and expenses to the Company and significantly divert the attention of the Company's management. While the final outcome of such claims and litigation pending as at March 28, 2020 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Regulatory Environment

The Company's operations and activities are subject to a number of laws and regulations in Canada, the United States and in other countries. Changes to statutes, laws, regulations or regulatory policies, including tax laws, accounting principles, and environmental regulations, or changes in their interpretation, implementation or enforcement, could adversely affect the Company's operations and performance. The Company may incur significant costs in the course of complying with any such changes.

The Company is also subject to continuous examination of its regulatory filings by various securities regulators, tax authorities, and environmental stewards. As a result, authorities may disagree with the positions and conclusions taken by the Company in its filings, resulting in a reassessment. Reassessments could also arise from amended legislation or new interpretations of current legislation. Any reassessment could adversely affect the Company's financial performance.

Failure to comply with applicable regulations could also result in judgment, sanctions, or financial penalties that could adversely impact the Company's reputation and financial performance. The Company believes that it has taken reasonable measures designed to ensure compliance with applicable regulations, but there is no assurance that the Company will always be deemed to be in compliance.

Throughout the COVID-19 pandemic, federal, provincial, state and municipal government authorities have introduced new legislation and regulations, as well as applied existing laws and ordinances in novel ways, in order to mitigate the impacts of the virus. The Company has actively monitored and analysed these government actions, assessed their impact on the Company's operations, and, where necessary or prudent, implemented changes to the Company's business practices and operations. The imposition of additional regulations or the enactment of any new or more stringent legislation in response to the COVID-19 pandemic could have a material adverse impact on the Company's business and results of operations.

The sourcing and importation of books is governed by the Book Importation Regulations to the *Copyright Act* (Canada). Any changes to the existing regulatory framework may impact the Company's ability to secure and maintain favorable terms and access to essential products, which could negatively impact the Company's revenues and margins and its ability to compete in the marketplace. As well, the distribution and sale of books is a regulated cultural industry in which foreign investments to acquire control of an existing cultural business are subject to review under the *Investment Canada Act*. There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada or by acting as a constraint on the acquisition by foreign investors of Canadian retailers involved in a cultural business. An increased number of competitors could have an adverse effect on the Company's financial performance.

Compliance with Privacy Laws

A number of Canadian federal and provincial statutes, as well as corresponding U.S. federal and state statutes, govern the privacy rights of the Company's employees and customers. These privacy laws create certain obligations regarding the Company's handling of personal information, including obligations relating to obtaining appropriate consent, limitations on use, retention, and disclosure of personal information, and ensuring appropriate security safeguards are in place. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individual customers and employees. Although the Company has implemented systems and processes to comply with applicable privacy laws in connection with the collection, use, retention, and disclosure of such personal information, if a significant failure of such systems was to occur, the Company's business and reputation could be adversely affected.

DIVIDENDS

The Company did not pay any dividends in the most recent three fiscal years. Indigo has no contractual restrictions that would limit its ability to pay dividends in the future. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Indigo consists of an unlimited number of common shares, of which 27,273,961 common shares are issued and outstanding as at June 23, 2020.

Each common share entitles the holder thereof to one vote at the Company's shareholder meetings and to participate equally and rateably in any dividends declared on the common shares by the Board of Directors of Indigo, and in any remaining property or assets of the Company that may be distributed in the event of voluntary or involuntary liquidation, dissolution, or winding-up of Indigo.

CONSTRAINTS

For a discussion of constraints imposed on the ownership of the Company's securities under the Canadian cultural business framework of the *Investment Canada Act*, please refer to the section "Risk Factors – Regulatory Environment".

MARKET FOR SECURITIES

Common shares in the capital of Indigo are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol IDG. There are currently no other classes of shares in the capital of Indigo issued or outstanding.

The following table sets out the price ranges and volumes traded for the Company's common shares on the TSX on a monthly basis for each calendar month in fiscal 2020.

Month	Open ($)	High ($)	Low ($)	Close ($)	Volume
April 2019	10.25	10.25	9.27	9.27	28,989
May 2019	9.45	10.10	6.89	7.19	392,282
June 2019	7.20	8.33	7.03	7.87	252,892
July 2019	7.86	8.15	7.21	8.15	58,452
August 2019	8.01	8.15	6.38	6.60	202,919
September 2019	6.03	6.38	5.50	5.61	557,319
October 2019	5.60	5.78	4.01	4.04	173,342
November 2019	4.01	4.95	3.90	4.51	378,985
December 2019	4.34	4.60	4.01	4.35	91,779
January 2020	4.17	4.31	3.50	3.75	132,693
February 2020	3.51	4.01	3.12	3.30	165,347
March 2020	3.38	3.38	1.40	2.10	177,248

DIRECTORS AND OFFICERS

The following table and notes thereto state the names and provinces or states of residence of all the Company's directors and executive officers as at June 23, 2020, their respective principal occupations, business, or employment within the five preceding years, their beneficial ownership of common shares and, with respect to the directors, the year in which they became directors of Indigo. Each director will hold office until the Company's next annual shareholders' meeting, or until such director's successor is duly elected, unless the office is earlier vacated in accordance with the by-laws of Indigo.

Name, Province or State, and Country of Residence	Position and/or Office with Indigo	Present Principal Occupation, if Different from Office Held	Director Since	Common Shares Beneficially Owned, Controlled or Directed as at June 23, 2020(1)
HEATHER REISMAN Ontario, Canada	Chair and Chief Executive Officer and Director	n/a	February 4, 2001	98,391 common shares
FRANK CLEGG(2) Ontario, Canada	Director	Volunteer Chairman and Chief Executive Officer for C4ST (mission to raise awareness of harmful effects from unsafe use of wireless technology)	February 1, 2005	nil common shares

Name, Province or State, and Country of Residence	Position and/or Office with Indigo	Present Principal Occupation, if Different from Office Held	Director Since	Common Shares Beneficially Owned, Controlled or Directed as at June 23, 2020(1)
JONATHAN DEITCHER(2)(3) Quebec, Canada	Director	Investment Advisor, RBC Dominion Securities (wealth management company)	August 7, 2001	60,000 common shares
MITCHELL GOLDHAR(4) Ontario, Canada	Director	Executive Chairman of SmartCentres REIT (real estate investment trust) and owner of Penguin Group of Companies (commercial real estate development company)	February 2, 2006	nil common shares
HOWARD GROSFIELD(3)(5) New York, USA	Director	Executive Vice President and General Manager, US Consumer Card Services, American Express (financial services company)	June 29, 2015	nil common shares
ROBERT HAFT(3) Washington, DC, USA	Lead Director	Managing Partner, Morgan Noble Healthcare Partners (investment firm specializing in healthcare)	November 3, 2015	nil common shares
ANDREA JOHNSON(6) California, USA	Director	Co-Founder and Chief Executive Officer of Rally Reader, LLC (digital reading platform for children)	November 8, 2016	4,925 common shares
ANNE MARIE O'DONOVAN(2) Ontario, Canada	Director	Corporate Director and President, O'Donovan Advisory Services Ltd. (advisory and consulting services company)	December 27, 2009	nil common shares
GERALD SCHWARTZ Ontario, Canada	Director	Chairman, President and Chief Executive Officer, Onex Corporation (diversified company)	February 4, 2001	15,501,974 common shares(7)
KIRSTEN CHAPMAN(8) Ontario, Canada	President	n/a	n/a	nil common shares
GILDAVE (GIL) DENNIS(9) Ontario, Canada	Chief Operating Officer	n/a	n/a	nil common shares

Name, Province or State, and Country of Residence	Position and/or Office with Indigo	Present Principal Occupation, if Different from Office Held	Director Since	Common Shares Beneficially Owned, Controlled or Directed as at June 23, 2020[(1)]
CRAIG LOUDON[(10)] Ontario, Canada	Chief Financial Officer and Executive Vice President, Supply Chain	n/a	n/a	nil common shares
BAHMAN (BO) PARIZADEH[(11)] Ontario, Canada	Chief Technology Officer	n/a	n/a	nil common shares
NATHAN WILLIAMS[(12)] Ontario, Canada	Chief Creative Officer	n/a	n/a	nil common shares

(1) As at June 23, 2020, the Company's directors and executive officers as a group, beneficially owned, directly or indirectly, or exercised direction or control over 15,665,290 common shares, representing approximately 57% of the outstanding common shares.

(2) Member of Audit Committee.

(3) Member of Human Resources, Compensation and Governance Committee.

(4) Mr. Goldhar is the Executive Chairman of the Board of SmartCentres REIT (formerly SmartREIT) and the owner of the Penguin Group of Companies, a commercial real estate development company. Mr. Goldhar is the founder of SmartCentres, a private real estate development company that he vended into SmartREIT in 2015. SmartREIT changed its name to SmartCentres REIT in October 2017. SmartCentres REIT is one of Canada's largest real estate investment trusts with an asset base of approximately $9.9 billion.

(5) Mr. Grosfield is currently the Executive Vice President and General Manager, US Consumer Card Services at American Express in New York and serves on the company's Global Leadership Team. From February 2016 to February 2018, Mr. Grosfield served as Executive Vice President, US Consumer Marketing Services. Prior to this role, Mr. Grosfield served as President and Chief Executive Officer of American Express Bank of Canada and President and General Manager of American Express Canada Inc. from May 2010 to February 2016.

(6) Ms. Johnson co-founded Rally Reader, LLC (developing software to assist in learning to read) in January 2019. She is also the Principal of Envelo Properties Corp. since October 2016. Ms. Johnson was also co-founder and Chief Executive Officer of ThisLife (2009 to 2013), a complete cloud solution for protecting, organizing and sharing photos and videos. ThisLife was acquired by Shutterfly in 2013 and is now one of the largest photo platforms in North America. Ms. Johnson is the daughter of Ms. Reisman, the Chair and Chief Executive Officer of the Company and Mr. Schwartz, who owns, directly or indirectly, a total of 15,501,974 common shares.

(7) Mr. Schwartz owns directly or indirectly, a total of 15,501,974 common shares held by Trilogy Retail Holdings Inc. and Trilogy Investments L.P. in aggregate representing approximately 56.8% of the outstanding common shares of Indigo. Ms. Reisman, who owns directly or indirectly, 98,391 common shares, is Mr. Schwartz' spouse.

(8) Ms. Chapman was promoted to the position of President of the Company on April 1, 2019. Prior to that, she held the position of Executive Vice President, E-Commerce and Chief Marketing Officer since May 2014.

(9) Mr. Dennis was promoted to the position of Chief Operating Officer of the Company on April 1, 2019. He joined Indigo in December 2015 as the Executive Vice President, Retail and Human Resources. From 2011 to 2015, Mr. Dennis was Senior Vice President of Stores at dressbarn, a division of Ascena Retail Group.

(10) Mr. Loudon was appointed Chief Financial Officer and Executive Vice President, Supply Chain in February 2019. Mr. Loudon joined the Company in August 2014 as Senior Vice President, Business Performance and has since held progressively senior Finance and Supply Chain roles. He served as Interim Chief Financial Officer from February 2017 through to May 2017. In June 2017, Mr. Loudon was designated Interim Executive Vice President, Supply Chain. From October 2017, Mr. Loudon served as Senior Vice President and Chief Supply Chain Officer until August 2018, when he was promoted to the position of Executive Vice President and Chief Supply Chain Officer.

(11) Mr. Parizadeh was appointed Chief Technology Officer in May 2016. He joined Indigo in January 2013 as Vice President, Customer Solutions and served as Interim Chief Technology Officer from March 2016 to May 2016.

(12) Nathan Williams was appointed Chief Creative Officer effective June 3, 2019. Mr. Williams is a Canadian creative director, author and entrepreneur. He is the co-founder of *Kinfolk* magazine (founded in 2011) and the Ouur apparel, homewares and accessories brand. Mr. Williams is a *New York Times* bestselling author with publications spanning interior design, cooking, entrepreneurship and creative direction.

Heather Reisman – *Chair and Chief Executive Officer and Director.* Heather Reisman is the founder of Indigo and has been its Chief Executive Officer since its inception in 1996. In 2001, Indigo merged with Chapters Inc. to become the public entity it is today. Ms. Reisman is a member of the Board of Directors of Onex Corporation and an Officer of Mt. Sinai Hospital. She was inducted into the Canadian Business Hall of Fame in 2015 and is an Officer of the Order of Canada.

Frank Clegg – *Director.* Frank Clegg is the Volunteer Chairman and Chief Executive Officer for C4ST. He was the Chairman of Navantis from January 2006 to December 2012. Mr. Clegg held the position of President of Microsoft Canada Co. from September 2000 to January 2005. Prior to that, he was Vice President, Central Region of Microsoft Corporation. Mr. Clegg is a member of the Company's Audit Committee and is the Technology Advisor to the Indigo Board of Directors.

Jonathan Deitcher – *Director.* Jonathan Deitcher is an investment advisor with RBC Dominion Securities Inc. ("RBC DS") where he has been employed since 1974. He served as a member of the Board of Directors of RBC DS from November 2000 to September 2003. Mr. Deitcher has been a Vice President at RBC DS since August 2004. Mr. Deitcher is a member of the Company's Audit Committee and Human Resources, Compensation and Governance Committee.

Mitchell Goldhar – *Director*. Mitchell Goldhar is the founder of SmartCentres, a commercial and residential real estate company, as well as Executive Chairman of SmartCentres Real Estate Investment Trust and its largest shareholder. SmartCentres is publicly traded on the TSX with assets of approximately $9.9 billion. Mr. Goldhar is also the owner of the Penguin Group of Companies, a private company, which owns real estate sites across Canada in various stages of development. In addition, Mr. Goldhar is the owner of Penguin Pick-Up, Revival Film Studios, Clevelands House Resort in Muskoka, and Maccabi Tel Aviv Football Club. Mr. Goldhar holds a B.A. degree in Political Science from York University and has been an adjunct professor with the Rotman School of Management, University of Toronto since 2004. Mr. Goldhar is a member of the Board of Onex Corporation and the Canadian Concussion Centre at Toronto General Hospital, and Director Emeritus with the SickKids Foundation.

Howard Grosfield – *Director*. Howard Grosfield is currently the Executive Vice President and General Manager, US Consumer Card Services at American Express in New York and serves on the company's Global Leadership Team. Prior to this role, Mr. Grosfield served as President and Chief Executive Officer of American Express Bank of Canada, as well as serving as its Chairman of the Board. Before joining American Express in 2004, Mr. Grosfield spent several years as a Principal with The Boston Consulting Group leading projects in retail, financial services, loyalty, and mergers and acquisitions. Mr. Grosfield was also a lawyer with Osler in Toronto. Mr. Grosfield is a member of the Company's Human Resources, Compensation and Governance Committee.

Robert Haft – *Lead Director*. Robert Haft is the Managing Partner of Morgan Noble Healthcare, with over 20 years of experience as an investor and CEO. As an entrepreneur, he has opened more than 800 retail stores including bookstores, drug stores, vitamin stores, and supermarkets. Mr. Haft was the founder and CEO of Vitamins.com. He served as Chairman and CEO of Phar-Mor Drugs, a $1.5 billion drug retail chain that he led out of bankruptcy to profitability and a successful sale, and CEO of Dart Group, a $1 billion healthcare company. Mr. Haft currently serves on the Boards of Continuum Health, Consensus Health and Trusted Health, as well as Chairman of Imagine Charter Schools. Mr. Haft holds an MBA and Master's degree in Design from Harvard and a Bachelor of Science from the Wharton School, where he served on the Undergraduate Board of Trustees. Mr. Haft is the Company's Lead Director and Chair of the Human Resources, Compensation and Governance Committee.

Andrea Johnson – *Director*. Andrea Johnson is the co-founder and Chief Executive Officer of Rally Reader, LLC, a digital reading platform for children. Rally Reader is the only AI-powered app that hears you read, tracks accuracy on a word-by-word basis, identifies errors, and provides real-time feedback. Ms. Johnson is also the Principal of Envelo Properties Corp. since October 2016. Ms. Johnson was also co-founder and CEO of ThisLife (2009-2013), a complete cloud solution for protecting, organizing, and sharing photos and videos. ThisLife was acquired by Shutterfly in 2013 and is now a key component of one of the largest photo platforms in North America. Prior to ThisLife, Ms. Johnson held the position of Director of E-Commerce at Pottery Barn. In addition to serving as a corporate director of Indigo, Ms. Johnson serves on the Advisory Board of Dartmouth's Magnuson Center for Entrepreneurship. She has been featured and quoted in many publications including: Forbes, Fortune, Business Week, Business 2.0, USA Today, PC World, TechCrunch, and All Things D. Ms. Johnson holds a BA from Dartmouth College and an MBA from Harvard Business School. Ms. Johnson is the daughter of Ms. Reisman, the Chair and Chief Executive Officer of the Company and Mr. Schwartz, who owns, directly or indirectly, a total of 15,501,974 common shares.

Anne Marie O'Donovan – *Director*. Anne Marie O'Donovan, FCA, is a Corporate Director and President, O'Donovan Advisory Services Ltd. Ms. O'Donovan previously held the position of Executive Vice President and Chief Administration Officer, Global Banking and Markets for Scotiabank until December 2014. Prior to joining Scotiabank in 2004, Ms. O'Donovan was a partner with Ernst & Young LLP. She holds an HBA degree from the Richard Ivey School of Business at the University of Western Ontario and is a Fellow of the Institute of Chartered Accountants of Ontario. Ms. O'Donovan is the Chair of the Board of Aviva Canada Inc., as well as Chair of the Audit Committees of MDC Partners Inc. and Cadillac Fairview, respectively. Ms. O'Donovan is also the Chair of the Board of Directors of CMA Investco Inc., a subsidiary of the Canadian Medical Association (CMA), which oversees the investment and management of CMA assets. Ms. O'Donovan is the Chair of the Company's Audit Committee.

Gerald Schwartz – *Director.* Gerald Schwartz founded Onex Corporation, one of North America's oldest and largest private equity firms, in 1984. Mr. Schwartz is presently the Chairman and Chief Executive Officer of Onex. Mr. Schwartz was inducted into the Canadian Business Hall of Fame in 2004 and was appointed an Officer of the Order of Canada in 2006.

Kirsten Chapman – *President.* Kirsten Chapman is responsible for the Indigo brand, for creating awareness and advocacy, and for driving customer engagement through retail and digital channels. As President, Ms. Chapman oversees operations across all digital channels, consumer insights, loyalty, programmatic marketing, and corporate affairs, as well as leading the !ndigoKids and IndigoBaby businesses. From 2000 to 2010, Ms. Chapman held positions at Watt Design Group, Cott Corporation, Roots, and Pistachio. From 2010 to 2012, she was a retail strategist for the specialty retail consulting firm, Joe Jackman Brands. Ms. Chapman rejoined Indigo in January 2013 as Executive Vice President, Online and Mobile. Ms. Chapman holds a Bachelor of Economics degree from McGill University.

Gildave (Gil) Dennis — *Chief Operating Officer.* Gil Dennis is responsible for driving customer-centric strategies and employee engagement that aligns with Indigo's vision, values, and culture. Additionally, Mr. Dennis has overall responsibility for the Company's retail operations, as well as the human resources, legal, real estate, store development and construction functions. Mr. Dennis has spent his entire career in retail. From 2011 to 2015, Mr. Dennis was Senior Vice President of Stores at dressbarn, a division of Ascena Retail Group. Prior to dressbarn, he worked at Best Buy for ten years in various retail and human resource leadership roles. Mr. Dennis joined the Company in December 2015 as Executive Vice President, Retail and Human Resources. Mr. Dennis also serves as a Board Director for the Indigo Love of Reading Foundation. Mr. Dennis holds a Bachelor of Science in Management degree from the University of Phoenix.

Craig Loudon – *Chief Financial Officer and Executive Vice President, Supply Chain*. Craig Loudon was appointed Chief Financial Officer and Executive Vice President, Supply Chain in February 2019. He is responsible for Indigo's finance, accounting, strategic sourcing, merchandise financial planning and allocation, internal audit, and loss prevention teams, as well as the supply chain function. Mr. Loudon has held progressively senior finance and supply chain roles since joining Indigo in August 2014. He has held senior finance and operations roles in the retail, manufacturing, transportation and management consulting industries for over 25 years. Mr. Loudon also serves as a Board Director for the Indigo Love of Reading Foundation. Mr. Loudon holds an MBA from INSEAD, and a Bachelor of Commerce degree from McGill University.

Bahman (Bo) Parizadeh – *Chief Technology Officer*. Bo Parizadeh was appointed Chief Technology Officer in May 2016. He is responsible for all information technology functions at Indigo, including enterprise and customer facing applications, architecture and technology strategy, infrastructure and operations, and project management. He joined the Company in January 2013 as Vice President, Customer Solutions, overseeing the digital and retail technology groups. Prior to joining Indigo, Mr. Parizadeh was at SapientNitro, a global technology consulting firm for over six years, where he was the Interactive Development practice lead for the north east and west coast business groups within North America. Throughout his time at Sapient, Mr. Parizadeh worked with a variety of clients in the financial and telecommunications industries, before ultimately moving his focus to the retail industry where he worked with large brands such as Target, Under Armour, and Disney, building best in class marketing and e-commerce platforms. Mr. Parizadeh holds a Computer Engineering degree from the University of Toronto.

Nathan Williams – *Chief Creative Officer.* Nathan Williams was appointed Chief Creative Officer effective June 3, 2019. He is responsible for Indigo's creative studio, design studio and visual merchandising. Mr. Williams is a Canadian creative director, author and entrepreneur. He is the co-founder of *Kinfolk* magazine and the Ouur apparel, homewares and accessories brand. Founded in 2011, *Kinfolk* has become a leading design authority, sold in over 100 countries and connecting a global community of creative professionals from London to Tokyo. Mr. Williams is a *New York Times* bestselling author with publications spanning interior design, cooking, entrepreneurship and creative direction. His creative work has been recognized as one of Elle Décor's Top 10 Influencers in Design, Forbes 30 Under 30 and the Hypebeast 100 list. Prior to founding *Kinfolk* and Ouur, Mr. Williams was an analyst at Goldman Sachs in New York trading Equity Derivatives and Securities. Mr. Williams holds a Bachelor of Science in Economics and a degree in Conflict Resolution from Brigham Young University, Hawaii.

AUDIT COMMITTEE

The text of the Audit Committee Charter is attached hereto in Appendix A.

Composition of the Audit Committee and Relevant Education and Experience of the Members

The Audit Committee is composed of Frank Clegg, Jonathan Deitcher, and Anne Marie O'Donovan, all of whom are independent and financially literate within the meaning set out in National Instrument 52-110 - *Audit Committees*. The Audit Committee members each have many years of senior business experience, which has ensured that they have a strong knowledge and understanding of accounting principles as they apply to corporations. Collectively, the Audit Committee members represent an appropriate balance of business and financial experience, together with solid understanding of internal controls and procedures for financial reporting.

Mr. Clegg joined the Company's Board in 2005 and was appointed to the Audit Committee in 2007. Mr. Clegg was the President of Microsoft Canada Co. from September 2000 to January 2005. Mr. Clegg brings his extensive information technology background to the Audit Committee at a point in time when the oversight of IT governance has become an important responsibility for boards and audit committees.

Mr. Deitcher was appointed to the Audit Committee effective July 11, 2019. Mr. Deitcher is an investment advisor with RBC DS where he has been employed since 1974. Mr. Deitcher has been a Vice President at RBC DS since August 2004. Mr. Deitcher has been a member of the Board since 2001 and possesses extensive knowledge of the business. With over 40 years of experience analyzing and reviewing financials statements as an investment advisor, Mr. Deitcher shares his financial skills and knowledge as a member of the Audit Committee.

Ms. O'Donovan joined the Company's Board in 2009 and was appointed as the Chair of the Audit Committee effective July 11, 2019, following the retirement of former director, Mr. Michael Kirby. She is a Fellow of the Institute of Chartered Accountants of Ontario and President of O'Donovan Advisory Services Ltd. Ms. O'Donovan has held numerous financial management roles including her former position of Executive Vice President and Chief Administration Officer, Global Banking and Markets for Scotiabank, which she held until December 2014.

Ms. O'Donovan is an experienced Board member and is currently the Chair of the Board of both Aviva Canada and CMA Investco Inc. (a subsidiary of the Canadian Medical Association). In addition, Ms. O'Donovan currently chairs the Audit Committee of Cadillac Fairview.

Ms. O'Donovan also brings experience in governance, internal control, and risk management from her previous positions as the Chief Auditor for Scotiabank and a partner at Ernst & Young LLP.

EXPERTS

The Company's consolidated financial statements for the year ending March 28, 2020 were audited by Ernst & Young LLP. Ernst & Young LLP has advised that it is independent with respect to the Company in accordance with the CPA Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

Pre-Approval Policies and Procedures

All decisions regarding the engagement of the Company's auditor for the provision of non-audit services are approved by the Audit Committee of the Board of Directors.

External Auditor Service Fees

The following table summarizes the audit, tax, and other fees (excluding expenses and taxes) of the Company's auditor, Ernst & Young LLP, relating to the two most recently completed fiscal years.

Type of Fee	2020	2019[1]
Audit Fees[2]	$442,650	$480,700
Tax Fees	$53,500	$52,000
All Other Fees	$3,200	$3,200
Total	$499,350	$535,900

[1] The presentation of fees in 2019 has been updated for consistency with the current year.

[2] Audit Fees in 2019 included $59,000 related to out-of-scope billings; these billings are yet to be determined for 2020.

Audit fees were incurred for the audit of the financial statements, as well as translation services, discussion of quarterly information, and accounting consultations on International Financial Reporting Standards. Tax fees incurred were related to tax compliance and tax planning/consulting services, while all other fees related to tax research costs.

TRANSFER AGENT AND REGISTRAR

The Company's transfer agent and registrar is AST Trust Company (Canada) and Indigo's common share register is located at their offices at 1 Toronto Street, Suite 1200, Toronto, Ontario, M5C 2V6.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and options to purchase securities is contained in Indigo's 2020 Management Information Circular as filed with Canadian securities regulatory authorities on SEDAR. Further information can also be found on SEDAR at *sedar.com*. Additional financial information is provided in the Company's comparative financial statements and MD&A for the fiscal year ended March 28, 2020, which are included on pages 4 through 67 of Indigo's 2020 Annual Report.

Copies of the following documents may be obtained, upon request, from the Company's Secretary at 620 King Street, Suite 400, Toronto, Ontario, M5V 1M6:

a) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

b) one copy of the Company's consolidated financial statements for its most recently completed financial year together with the accompanying report of the auditor and one copy of any of the Company's interim financial statements subsequent to the financial statements for its most recently completed financial year; and

c) one copy of the Company's most recent Management Information Circular as filed with Canadian securities regulatory authorities on SEDAR.

APPENDIX A

INDIGO BOOKS & MUSIC INC.

(the "Corporation")

AUDIT COMMITTEE CHARTER

1. PURPOSE

The primary function of the Audit Committee (the "Committee") is to assist the Board of Directors (the "Board") of the Corporation in fulfilling its oversight responsibilities for: (i) the integrity of the Corporation's financial statements; (ii) the Corporation's compliance with legal and regulatory requirements as they relate to the Corporation's financial statements; (iii) internal controls over financial reporting and disclosure controls and procedures; (iv) enterprise risk management; (v) the qualifications, independence and performance of the external auditor; and (vi) the performance of the Corporation's internal audit function. This also includes the audit and financial reporting process for the Corporation's subsidiaries.

The Committee will, at all times, be given full access to the Corporation's management and records and to the external auditors as necessary to carry out these responsibilities.

2. COMPOSITION

The Committee shall be comprised of a minimum of three directors, each of whom will be independent, as contemplated by *Multilateral Instrument 52-110 - Audit Committees*. Members of the Committee, as well as its Chair, shall be recommended by the Human Resources, Compensation and Governance Committee and appointed by the Board annually. In any year that the Board does not make an appointment of the Chair, the incumbent Chair shall continue in office until his/her successor has been appointed.

3. MEMBER QUALIFICATIONS

All members of the Committee shall be financially literate and thus be able to read and understand fundamental financial statements including a balance sheet, an income statement and a cash flow statement that presents a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements.

4. MEETINGS

The Committee will meet at least four times a year, or more frequently as circumstances dictate. The timing of the meetings shall be determined by the Committee.

A quorum for the transaction of business at any Committee meeting shall be a majority of Committee members.

In the absence of the Committee Chair, the Committee members shall appoint an Acting Chair.

5. RELATIONSHIP WITH EXTERNAL AUDITORS

The external auditor shall report directly to the Committee. The Committee is authorized to recommend the replacement of the external auditor, where appropriate.

6. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Committee shall:

I. Financial Reporting and Disclosure

(a) review the accounting principles, policies and practices followed by the Corporation and its subsidiaries in accounting for and reporting its financial results of operations, satisfying itself that such policies and practices are prudent and appropriate;

(b) review and discuss with management and external auditors as required, the Corporation's audited annual consolidated financial statements, unaudited quarterly financial statements, and management's discussion and analysis prior to Board approval and disclosure to the public, satisfying itself that the financial statements are accurate, complete and present fairly, in all material respects in accordance with International Financial Reporting Standards ("IFRS"), the financial condition and performance of the Corporation, and together with management's discussion and analysis, the annual information form and associated officer certifications constitute a fair presentation of the Corporation's financial condition; discussions with management and external auditors should include significant issues regarding accounting principles, practices and significant management estimates and judgments;

(c) review and recommend the Corporation's annual information form, management information circular and other regulatory filings to the Board for approval;

(d) review certifications of the Chief Executive Officer and Chief Financial Officer on the integrity of the quarterly and annual consolidated financial statements;

(e) review and recommend to the Board for approval the annual and interim earnings press releases and all other material financial press releases prior to public disclosure;

(f) review and, if appropriate, recommend to the Board for approval, prospectuses, take-over bid circulars, issuer bid circulars and directors' circulars; and

(g) satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures.

II. External Auditors

(a) recommend to the Board the selection of the external auditors;

(b) recommend to the Board the compensation of the external auditors;

(c) oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;

(d) review and determine the independence of the external auditor, including obtaining, on an annual basis, a formal written statement from the external auditors delineating the relationship between the audit firm and the Corporation, and reviewing and discussing with the external auditors such relationship to determine their "independence";

(e) review any management letter prepared by the external auditors concerning the Corporation's internal financial controls, record keeping and other matters and management's response thereto;

(f) discuss with the external auditors their views about the quality of the implementation of IFRS, with a particular focus on the accounting estimates and judgments made by management and management's selection of accounting principles. Meet in private with appropriate members of management and separately with the external auditors on a regular basis to share perceptions on these matters, discuss any potential concerns and agree upon appropriate action plans. Review with the external auditors their views on the adequacy of the Corporation's financial personnel;

(g) approve the scope of the annual audit, the audit plan, the access granted to the Corporation's records and the co-operation of management in any audit and review function;

(h) receive from the external auditors reports on their review of the annual and quarterly financial statements;

(i) receive from management a copy of the management representation letter provided to the external auditors and any additional representations required by the Committee;

(j) review the effectiveness of the external auditor, including the annual audit and any quarterly reviews and assess the effectiveness of the working relationship of the external auditors with management;

(k) evaluate the lead audit partner and discuss the timing and process of the rotation of the lead audit partner and other audit engagement team partners;

(l) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation; and

(m) determine the nature of non-audit services the external auditors are prohibited from providing to the Corporation and pre-approve all non-audit services provided by the external auditors to the Corporation.

III. Enterprise Risk Management

(a) review the financial risk management policies implemented by the Corporation in operating its business activities and the completeness and fairness of any disclosure thereof;

(b) review the use of derivative financial instruments by the Corporation; and

(c) assess and monitor all significant risks to the Corporation.

IV. Internal Auditors

(a) review the annual plan of the internal auditor, including the audit scope and overall risk assessment methodology, ensuring such are appropriate for the Corporation;

(b) review the organizational structure of internal audit to ensure independence from management and an appropriate segregation of duties;

(c) review the effectiveness of the internal auditor;

(d) review the quarterly reports of the internal auditor on internal audit activities, including audit findings, recommendations and progress in meeting the annual audit plan; and

(e) meet regularly with the internal auditor, with or without management present, to discuss the effectiveness of the Corporation's internal control procedures, risk management and governance processes.

V. Complaints/Concerns

(a) establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

VI. Internal Controls/Compliance

(a) assess the Corporation's system of internal financial controls and the Corporation's control environment to satisfy itself that such controls are effective and efficient;

(b) satisfy itself that management has developed and implemented a process to ensure compliance with continuous disclosure obligations;

(c) review reports from management and internal/external auditors with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements;

(d) review reports from management or others regarding the Corporation's compliance with applicable governing legislation and whether the Corporation's policies and procedures are operating effectively in this regard;

(e) review applicable internal policies (e.g. Fraud Policy, Disclosure Policy, Insider Trading Policy, Whistleblower Policy) on a regular basis;

(f) review reports on material litigation matters, as applicable; and

(g) oversee matters relating to security of and risks related to information technology systems and procedures, including assessment of the adequacy and effectiveness of the internal controls regarding information security.

VII. Related Party Transactions

(a) review all material proposed related party transactions that are not dealt with by a "special committee" of "independent directors" pursuant to securities legislation.

VIII. Other

(a) review in advance the appointment of the Chief Financial Officer;

(b) review annually this Committee Charter for adequacy and recommend any changes to the Board;

(c) meet in-camera with (i) external auditors; (ii) internal auditors, and (iii) management at each meeting of the Committee, as required;

(d) report to the Board on the major items covered at each Committee meeting and make recommendations to the Board and management concerning these matters at the next scheduled Board meeting;

(e) report to the Board on the effectiveness of the Committee annually; and

(f) perform any other activities consistent with this Charter, the Corporation's By-laws and governing law as the Committee or the Board deems necessary or appropriate.

7. AUTHORITY

The Committee has the authority:

(a) to engage independent counsel and other advisors as it determines necessary to carry out its duties;

(b) to set and pay the compensation for any advisors employed by the Committee;

(c) to conduct or authorize investigations into matters within its scope of responsibility; and

(d) to communicate directly with the internal and external auditors.