

**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 present 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 bids 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 including receipt from management and the external auditors, on at least an annual basis, an audit quality scorecard to facilitate such assessment;
- (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;

- (m) receive from the external auditors, on at least an annual basis, an overview of Public Company Accounting Oversight Board (PCAOB) and Canadian Public Accountability Board (CPAB) audit quality inspections reports to educate the Committee and identify relevant lessons learned or issues for discussion; and
- (n) 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) oversee the Corporation's enterprise risk management framework to monitor, mitigate and manage key risks;
- (b) monitor cyber risk, fraud risk, information technology risk and other risks as delegated to the Committee as part of the Corporation's enterprise risk management program and monitor the effectiveness of the Corporation's policies, plans and processes to mitigate and manage such risks; and
- (c) review the use of derivative financial instruments by 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) monitor the Corporation's system of internal financial controls and the Corporation's control environment to satisfy itself that such controls are effective and efficient through review of reports received from internal audit, finance and the external auditors;
- (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 (eg. 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. Environmental, Social and Governance ("ESG") Matters

- (a) oversee the Corporation's process for determining the effectiveness and integrity of ESG disclosures.

IX. 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.