Indigo Books & Music Inc.

Annual Information Form

Pursuant to Rule 44-101

July 29, 2003

Indigo Books & Music Inc.

CORPORATE STRUCTURE

General

Indigo is the largest book retailer in Canada, operating bookstores in all provinces of Canada. Indigo was formed upon the amalgamation of Chapters Inc. and Indigo Books & Music Inc. under the laws of the Province of Ontario, pursuant to a Certificate of Amalgamation dated August 16, 2001. Previously, Chapters Inc. was formed upon the amalgamation of Coles Book Stores Limited and FICG Inc., under the laws of the Province of Ontario, pursuant to a Certificate of Amalgamation dated April 11, 1995. Indigo's head and registered office is located at 468 King Street West, Toronto, Ontario, M5V lL8.

Principal Subsidiaries

The following table sets forth the names of the principal subsidiaries (including limited partnerships) of Indigo as of July 29, 2003, the percentage of shares (or interest) owned by Indigo and the jurisdiction of incorporation or continuance of each such subsidiary (or limited partnership).

Name of Subsidiary	Percentage Owned	Jurisdiction of Incorporation or Continuance
Calendar Club of Canada Limited Partnership	50.0%	Delaware, USA
Chapters Campus Bookstores Company	51.0%	Ontario, Canada

DESCRIPTION OF INDIGO

Overview of Business

Indigo sells books and book-related products, including newspapers, magazines, audio books, stationery, music CDs, videos, DVDs, educational and entertainment-oriented software and gifts through its 88 superstores, operating under the names Indigo Books Music & more, Chapters, and the World's Biggest Bookstore; and 179 mall stores operating under the names Coles, SmithBooks, LibrairieSmith and The Book Company.

Change of Ownership and Significant Acquisition

On February 2, 2001, Trilogy Retail Enterprises, L.P. ("Trilogy") acquired 7,146,000 common shares of Indigo ("Common Shares"). On August 7, 2001, Indigo shareholders agreed to the merger of Indigo and Indigo Books & Music, Inc. (“Old Indigo”) and on August 14, 2001, this merger (the "Indigo Merger") took effect. Pursuant to Articles of Amalgamation dated August 16, 2001, Indigo amalgamated with the entity that resulted from the amalgamation of Old Indigo, Indigo Online Inc. and 1475964 Ontario Limited, to continue as "Indigo Books & Music Inc." Under the terms of the Indigo Merger, Indigo issued 528,268 Common Shares to the holders of the equity interests in Old Indigo. On a fully diluted basis, an aggregate of approximately 2,355,938 Common Shares were issued or issuable, taking into account Old Indigo options and warrants, which were converted into Indigo options and warrants, and Old Indigo convertible debt instruments, which became convertible into Common Shares.

Retail Business

Indigo operates 88 superstores. Superstores are typically ten times the size of Indigo's mall stores, permitting them to carry a vast title selection and provide an inviting ambience.

Indigo operates 179 mall stores in shopping centres, street-front retail areas, airports and shopping concourses throughout Canada, including 149 Coles, 23 SmithBooks, 4 LibrairieSmith and 3 The Book Company stores. The mall stores are built on service, convenient locations and selection. Indigo continues to pursue a mall store rationalization program whereby, as leases come up for renewal, Indigo closes under-performing and duplicate stores, as well as mall stores that will be impacted by the opening of a superstore in their markets. At the same time, it is management's belief that profitable opportunities exist within certain markets for the Coles banner.

Indigo is in the process of reviewing its real estate portfolio of superstores with a view to closing under performing and duplicate stores in the same market. It is anticipated that five to seven large format stores may be closed or downsized over the coming year. Indigo will explore new store opportunities now that restrictions on new store openings under the Consent Order (defined below) have expired.

In September 1997, Indigo entered into a joint venture with Calendar Club L.L.C., a Texas limited liability company, for the purpose of operating temporary seasonal calendar kiosks and stores in Canadian shopping centres under the Calendar Club of Canada name. In April 1999, Indigo entered into a new limited liability partnership (the "Calendar Club Partnership") with Calendar Club L.L.C. and Paris Southern Lights Inc. ("PSL"), a distributor of calendars in Paris, Ontario. Prior to the formation of the Calendar Club Partnership, PSL distributed calendars and operated the Calendar Club kiosks under contract to the joint venture. Indigo operates 182 seasonal calendar kiosks.

In August 1999, Indigo, through Chapters Canadian University Bookstores Limited ("CCUBL"), acquired a controlling interest in the merged operations of CCUBL and the Canadian operations of Barnes & Noble College Bookstores Inc. ("B&N College"). The combined campus bookstore division, Chapters Campus Bookstores Company ("CCBC"), manages the McGill University Bookstore in Montreal and the bookstores at Niagara College in Welland, Niagara College in Niagara-on-the-Lake, Cambrian College in Sudbury, Northern College in Timmins and Loyalist College in Belleville.

Internet Business

Indigo operates *www.chapters.indigo.ca*, a leading Canadian destination for online shoppers. The site features a large selection of books, videos, gifts and DVDs at Canadian prices, with a focus on products of interest to Canadians.

Indigo Distribution Centre

In December 2000, Indigo management converted Pegasus Wholesale Inc.'s ("Pegasus") 330,000 square foot distribution facility in Brampton, Ontario to a distribution centre for Indigo retail and a fulfillment centre for Chapters Online Inc. (“Chapters Online”). It is referred to as the Indigo Distribution Centre.

Description of the Retail Business

Superstores

Indigo operates its superstores under the names Indigo Books Music & more, Chapters, and the World's Biggest Bookstore in all provinces of Canada. These book superstores are typically about ten times the size of Indigo's mall stores. In the 52 weeks ended March 29, 2003, these stores accounted for sales of $528.1 million, representing 68% of total revenues. Indigo superstores are designed to be a destination for book consumers, offering an environment that is conducive to browsing and that becomes a part of the local community. Management believes that, as a result of superior title selection, ambiance, convenient hours (generally, 10:00 a.m.-10:00 p.m., seven days per week), competitive pricing and knowledgeable staff, Indigo is well positioned to maintain its status as the leading book superstore operator in Canada.

Large Title Selection. Indigo believes that superstore sales are driven by actual customer browsing of on-hand titles and by customers' expectations that a desired title or subject will be in stock. Indigo's superstores offer a large selection of book titles, covering major and obscure subjects. Indigo has computer lookup stations in all Indigo superstores to give retail customers access to much the same inventory of books available to its online shoppers.

Superior Store Design. Superstores are designed to encourage browsing for extended periods, featuring wide aisles, comfortable seating, warm lighting and soft colours. Floor plans partition the stores into manageable areas and lead customers to popular categories such as "fiction", "children's" and "multi-media".

Real Estate. In fiscal 2003, Indigo closed 2 superstores as part of its ongoing initiative to streamline its real estate portfolio and close under-performing locations in over-served markets. Since March 29, 2003, no superstores have opened or closed. The Consent Order (defined below) contains restrictions concerning store closings.

The size of an Indigo book superstore is dependent upon the size of the local population and the potential draw of such a store, the demographics of the market and the availability of other locations. Currently, superstores range in size from 11,000 to 67,000 square feet (compared to an average of approximately 2,700 square feet for mall stores), with the majority being between 20,000 and 30,000 square feet. The total superstore selling square footage is 2,123,000. All Indigo superstores are leased.

Mall Stores

Indigo operates its mall stores in all provinces of Canada under the names Coles, SmithBooks, LibrairieSmith, and The Book Company. These stores are typically located in retail shopping centres, street-front retail areas, major airports and central business districts. Coles and SmithBooks are the leading mall store chains in Canada in terms of both sales and number of stores. Indigo's mall stores generated combined sales of $174.0 million in the 52 weeks ended March 29, 2003, representing 22% of total revenues.

Convenience Shopping. Indigo's mall stores typically carry approximately 8,000 titles, covering a wide range of book categories, including new releases, bestsellers, mass market paperbacks, trade books, bargain and remaindered books, audio books, calendars, newspapers and magazines. Stores are generally open during the operating hours of the shopping centres in which they are located.

Mall stores rely heavily on impulse and walk-in business. Indigo believes that its recognized national banner names are valuable in attracting walk-by traffic into its stores and that its portfolio of locations in prominent shopping centres, street-front retail areas, airports and other core retail locations across Canada is the most significant factor contributing to their ongoing sales performance.

Real Estate. Indigo operates 179 mall stores comprising 149 stores with the Coles banner, 3 with The Book Company banner, 4 with the LibrairieSmith banner and 23 with the SmithBooks banner. There were 17 mall store closures from April 1, 2001 to March 30, 2002 and 8 additional mall store closures from March 30, 2002 to March 29, 2003. Since March 29, 2003, no mall stores have opened and 2 mall stores have closed.

Indigo's management believes that many of Indigo's mall stores are located in geographic areas that are too sparsely populated to support a superstore and therefore management anticipates that Indigo's mall stores will continue to provide a significant source of revenue well into the future.

Loyalty Program

Indigo's *iRewards* customer loyalty program operates at its superstores and at its mall stores and provides members with a discount on all regular-price book purchases and points for online and store purchases for which customers pay an annual fee. Indigo believes that the program generates significant customer loyalty and provides customers with a strong incentive to choose Indigo as their preferred retailer of books, music and gifts. The transaction history provided by these programs provides an excellent basis upon which to build targeted, direct marketing programs, as well as a comprehensive database for other direct sales methods such as Internet or catalogue-based sales in the future. The *iRewards* program had a combined total enrollment of approximately 1.1 million members at the end of March, 2003.

Information Systems

In fiscal 2003, Indigo launched a major initiative to upgrade its procurement, supply chain and financial systems using an integrated SAP solution. The Company believes the new system will improve customer service, allow for better merchandising of product, and reduce its distribution and operating costs. The system is expected to “go live” in the spring of 2004.

Purchasing

Indigo's category managers have significant book industry experience, each specializing in one or more subject areas, such as fiction, history, architecture and/or science. Indigo purchases its books from more than 100 major publishers.

Currently, Indigo has an active list of approximately 195,000 titles. Each year, Indigo's category managers are presented with more than 60,000 new titles for consideration, of which approximately 25,000 titles are chosen for addition to Indigo's title list, while approximately 20,000 to 25,000 are de-listed annually. In addition, Indigo will special order any book currently in print for customers.

Approximately 85% of all books Indigo purchases are returnable to suppliers for full credit. Indigo is responsible only for transportation and labour costs associated with returning these books. Historically, it has returned approximately 30% of the books purchased under these arrangements. Indigo also purchases non-returnable books and sell them as bargain books.

In order to maximize the average transaction revenues of the customers that visit either mall stores or superstores, Indigo is focusing on the expansion of its gift program. While the sale of books and book-related products will continue to be the single most important product line to Indigo, it is management's belief that other merchandise can effectively add incremental revenues to existing store sales.

Private Brand Marketing

Since Indigo re-activated its private brand publishing division under the names Prospero Books and Coles Publishing, it has published more than 500 titles. Historically, Indigo's predecessors published a limited number of titles, including Coles Notes and many pictorial promotional books. Indigo has launched its publishing division with the publication of several new promotional books, has redesigned and updated the nationally recognized Coles Notes student series, and is publishing a new line of Coles Notes for adults on subjects such as parenting, financial planning, learning languages, and starting a small business.

Campus Bookstores

In September 1997, Indigo launched its campus bookstore division, CCUBL. In August 1999, Indigo, through CCUBL, acquired a 51% interest in the merged operations of CCUBL and the Canadian operations of B&N College. The combined campus bookstore division, which operates under the new name CCBC, manages the bookstores at Niagara College in Welland, Niagara College in Niagara-on-the-Lake, Cambrian College in Sudbury, Northern College in Timmins and Loyalist College in Belleville.

Seasonal Calendar Kiosks

In September 1997, Indigo entered into a joint venture with Calendar Club L.L.C., a Texas limited liability company, for the purpose of operating temporary seasonal calendar kiosks and stores in Canadian shopping centres under the Calendar Club of Canada name. In April 1999, Indigo entered into the Calendar Club Partnership with Calendar Club L.L.C and PSL. Prior to the formation of the Calendar Club Partnership, PSL distributed calendars and operated the Calendar Club kiosks under contract to the joint venture.

Regulatory Environment

The *Investment Canada Act* regulates the acquisition by a non-Canadian of control of a Canadian business, including a business engaged in the publication, distribution or sale of books. Currently, foreign investments to acquire control of an existing Canadian-controlled book publishing, distribution or retailing business are generally not permitted. Acquisitions of a non-Canadian controlled business and indirect acquisitions are subject to review by Heritage Canada, the government agency responsible for determining whether the acquisition is likely to be of net benefit to Canada. As part of that determination, Heritage Canada will typically seek from the foreign investor one or more commitments, such as a commitment to the development of Canadian authors, a commitment to support the infrastructure of the book distribution system in Canada, accessibility of the company's Canadian marketing and distribution infrastructure to interested and compatible Canadian-controlled publishers, and a commitment to education and research through financial and professional assistance to Canadian institutions offering programs in publishing studies. In addition, where the business is Canadian-controlled, other Canadians must be given a full and fair opportunity to acquire the business. In practice, these provisions have not generally been applied to businesses in which bookselling forms only an ancillary component of the business, such as mass merchandisers. A foreign investment to establish a book publishing, distribution or retailing business will generally not be permitted other than as a joint venture controlled by Canadians.

The Book Importation Regulations (the "Regulations") to the *Copyright Act* (Canada) came into force on September 1, 1999. The *Copyright Act* (Canada) and Regulations limit the "parallel importation" of books legitimately produced in another country, which may be imported without the consent of the Canadian copyright owner or exclusive distributor. The Regulations establish notice requirements and distribution criteria that must be met by an exclusive distributor. Where the specified criteria are met,

orders may be placed for books only through the Canadian exclusive distributor. The *Copyright Act* (Canada) provides that the parallel importation of books that is not with the consent of the Canadian copyright owner or through the exclusive Canadian distributor constitutes copyright infringement.

Employees

As at March 29, 2003, Indigo employed a total of approximately 6,700 people (on a full-time and part-time basis). The number of part-time booksellers employed by Indigo fluctuates based upon seasonal demand. When hiring new booksellers, Indigo considers a number of factors including customer service skills, experience and education. New associates participate in a training program that covers all aspects of customer service and selling, including title searches for in-stock and in-print merchandise, merchandising, sorting, operation of point-of-sale terminals and store policies and procedures. As at the date hereof, a collective agreement is in place that covers approximately 73 of Indigo's booksellers at one location and Confederation des syndicates nationaux has been accredited by La commission des relations du travail to represent another 73 employees at a store located in Montreal.

Trade Names and Trademarks

Indigo is the owner of numerous trademarks and trade names that are registered in Canada, including: !NDIGO and design; INDIGO! BOOKS & MUSIC; INDIGO! KIDS; INDIGO; INDIGO! CAFE; INDIGO BLEND and design; CHAPTERS (three registrations); CHAPTERS & DESIGN; CHAPTERS BOOKSTORE; CHAPTERS BOOKSTORE CAFE; CHAPTER ONE; CHAPTER 1; CHAPTERS.CA; CHAPTERSONLINE; WWW.CHAPTERS.CA and design (two marks); CROWN BOOKS; THE AVID READER; AVID READER and design; OUR PRICES SPEAK VOLUMES; GREAT BOOKS ARE JUST THE BEGINNING; C and design; L and design; COLES NOTES; COLES THE BOOK PEOPLE; PROSPERO BOOKS; BOOKS and design; COLES THE BOOK PEOPLE!... FOR THE PEOPLE WHO LOVE BOOKS; BOOKTALK; BOOKSAVE; THE BOOK COMPANY and design; COLES; ACTIVE MINDS — COLES FOR KIDS; FIRST IMPRESSIONS; FIRST IMPRESSIONS and design; SOF'SPOT; FORUMHOUSE and design; BOOK BEAT and design; PROSPERO THE BOOK COMPANY; ENTITLEMENT THE BOOK COMPANY; COLES FOR KIDS; WORLD'S BIGGEST BOOKSTORE; WE'RE OPEN IF YOU ARE; THE GARDEN GUILD; CRUICKSHANKS and design; and VAN TUBERGEN.

STARBUCKS is a registered trademark of the Starbucks Coffee Company.

Description of the Internet Business

Corporate History

Chapters Online was incorporated under the *Business Corporations Act* (New Brunswick) by Certificate of Incorporation effective July 23, 1999. In August and September 1999, Chapters Online went public on the TSX, with Indigo retaining a 69.9% ownership stake. On October 27, 2001, Indigo acquired all the issued and outstanding shares of Chapters Online not already owned by Indigo. This transaction resulted in the issuance of 750,193 Common Shares to the holders of equity interests of Chapters Online. Chapters Online became a wholly owned subsidiary of Indigo, and is in the process of being dissolved. Immediately following the acquisition, Chapters Online's business was incorporated into Indigo's business. Pursuant to this transaction, Chapters Online filed Articles of Continuance in Ontario on November 5, 2001. Indigo's internet business combines the businesses of Chapters Online and Indigo Online Inc., and is integrated into the overall business of Indigo.

Overview of Business

Indigo operates www.chapters.indigo.ca, a leading Canadian destination for online shoppers. The site features a large selection of books, videos, gifts and DVDs at Canadian prices, with a focus on products of interest to Canadians. Chapters Online was the recipient of the Retail Council of Canada's Excellency in Retailing Award 2000 for its achievements as Canada's leading online retailer.

Attracting Customers to the Web Site

Indigo uses its national network of superstores for highly targeted in-store marketing activities that promote the use of its online operations. Computer kiosks located in Indigo superstores enable Indigo customers to access Indigo's Web site to locate and purchase books that are not in stock in the particular superstore. *iRewards* members are typically educated book consumers, who represent a valuable target market for online retailers. Indigo has designed its Web site so that members of *iRewards* who purchase products on the Web site are able to receive discounts on purchases and earn points under that loyalty program, thereby entitling them to discounts on future purchases at Indigo's stores or at www.chapters.indigo.ca.

Indigo's affiliate program allows other Web site owners to link to Indigo's Web site and direct their visitors to purchase products from Indigo. Each time a purchase is made by a visitor who has followed an affiliate's link, such affiliate receives a referral fee. Indigo's Web site is also designed to allow affiliates to establish links to their Web sites quickly and easily.

Building Customer Loyalty

Indigo's Web site promotes customer loyalty and repeat purchases by providing an online experience that encourages customers to return frequently. Visitors to the Web site are greeted with highlighted subject areas arranged in a simple fashion intended to enhance product search and selection. Indigo offers numerous forms of content to enhance a customer's shopping experience, including cover art, synopses, annotations and reviews by other customers. Special features include best seller lists, featured books, music and videos, theme presentations and highlighted books by Canadian authors. Indigo's search engine and sorting capabilities allow consumers to search or "browse" in an intuitive and easy fashion, grouping products according to keywords, titles, authors, artists, actors and more complex and precise search tools. Indigo's search engine is designed to produce accurate and meaningful results on virtually every search.

Customer service and support are critical to establishing and maintaining long-term relationships with its customers. Indigo seeks to achieve frequent communications with and feedback from its customers in order to improve customer satisfaction. It offers an e-mail address and a toll-free telephone number to enable customers to request information and to encourage feedback and suggestions. Indigo's customer service representatives are available by telephone five days per week year-round, and more during the holiday season. In addition, Indigo has customer service availability via e-mail.

Indigo has designed its systems so that all transactions on its Web site are simple and secure. It allows its customers to establish an account online, to store an address book, credit card information and shipping preferences, which can be automatically re-used by customers on repeat purchases. All customer information is encrypted, using advanced security systems, before it is sent to Indigo's secure server.

Indigo enjoys the benefit of its large volume wholesale discounts from its "bricks and mortar" retail stores. The online business does not match the prices of all its competitors, but merchandises effectively with a mix of price competitiveness and a wide selection of products. It offers many best-seller hard cover books at a 30% discount from publishers' list prices. Indigo also offers a large selection of bargain books

at discounts of up to 80% off publishers' list prices. It denominates its prices in Canadian dollars, which provides Canadian customers with certainty in determining price.

Efficient Execution of Customers' Orders

The ability to deliver products to customers efficiently is a critical factor in achieving repeat customer purchases.

Consumers increasingly demand an assured in-stock position and fast delivery from online retailers. In conjunction with the Indigo Distribution Centre and outsourcing agreements with other vendors, Indigo is able to provide shipment on a large number of book, videotape and DVD titles, many of which are available for shipment within 24 hours. It operates a virtual warehouse, whereby customer orders are automatically transmitted to the Indigo Distribution Centre or other third party vendor, where they are packaged and shipped to customers in accordance with their delivery specifications. The Indigo Distribution Centre is Canada's largest book distribution centre, with a 330,000 square-foot facility located in Brampton, Ontario. The Indigo Distribution Centre uses inventory control systems that update its inventory as orders are transmitted from the Web site. Each customer receives an e-mail after placing an order that confirms that the order has been received by Indigo and that lists details of their purchase. A second e-mail is sent to each customer, confirming shipping and tracking information.

Technology plays a key role in Indigo's ability to communicate with customers, as well as ensuring that orders are executed accurately and efficiently. Indigo plans to continue to invest in technologies that will enable it to offer its customers a convenient and user-friendly online shopping experience. Its Web site and e-commerce platforms use a component architecture design that is fully redundant and rapidly scaleable, allowing it to increase capacity easily and add additional applications. The AT&T Data Centre in Markham, Ontario, is the primary host location of Indigo's online operations. Indigo selected this facility because it is highly secure. The hardware components currently utilized by Indigo are principally Compaq-Intel-based systems, which are designed to permit rapid scaleability while Indigo's systems are operating, avoiding the necessity of system shut-down, and decreasing downtime of Indigo's Web site and its order execution capabilities.

Description of Indigo Distribution Centre

On August 13, 1999, Indigo established Pegasus as a wholesaler, and in December 2000, Indigo management discontinued Pegasus as a wholesaler and converted Pegasus's 330,000 square foot distribution facility in Brampton, Ontario to a distribution centre for Indigo retail and a fulfillment centre for the online business. It is now referred to as the Indigo Distribution Centre.

Properties

Indigo currently leases all its facilities. The average unexpired term under Indigo's existing mall store leases is approximately 2.2 years, and superstores have an average unexpired lease term of approximately 7.3 years. Indigo has commenced a shorter-term leasing strategy for its mall stores in order to maximize flexibility, hedge against the possibility of shopping centre deterioration and facilitate the implementation of the rationalization strategy related to its mall stores.

Indigo leases its main headquarters at 468 King Street West, Toronto, Ontario, M5V 1L8. Indigo's headquarters are approximately 27,000 square feet in size.

The Indigo Distribution Centre is currently leasing approximately 330,000 square feet of warehouse space in Brampton, Ontario. The internet operations of Indigo are located in leased premises at 82 Peter Street, Toronto, Ontario.

Consent Order Issued by Competition Tribunal

During the course of Trilogy's successful take-over bid, the owners of Trilogy expressed their intent to facilitate the merger negotiations that eventually resulted in the Indigo Merger. The offer by Trilogy and the subsequent merger with Old Indigo was subject to the *Competition Act* (Canada). In order to resolve the concerns of the Commissioner of Competition appointed under the *Competition Act* (Canada), Indigo and Old Indigo agreed to certain structural and behavioural remedies, which took effect upon the issuance of a consent order on June 8, 2001 (the "Consent Order") by the Competition Tribunal established under the *Competition Tribunal Act* (Canada) (the "Competition Tribunal").

The Consent Order requires Indigo to adopt certain terms in its dealings with publishers, and includes limitations on Indigo's new store acquisitions, enforcement of restrictive covenants, opening of new store locations, and participation in the business of wholesaling or distributing books to third parties. The "Code of Conduct", which forms part of the Consent Order, provides that Indigo must extend certain commercial terms to publishers, including terms related to discount levels, payment periods for outstanding accounts, and maximum return levels. All disputes related to the Code of Conduct are required to be dealt with according to an expedited arbitration procedure set out in the Code of Conduct. The Code of Conduct will automatically terminate on June 8, 2006.

After the Competition Tribunal has issued an order, it retains jurisdiction to rescind or vary the order if, on application by the Commissioner or a person against whom the order has been made, the Competition Tribunal finds that (a) the circumstances that led to the making of the order have changed and, in the circumstances that exist at the time the application is made, the order would not have been made or would have been ineffective to achieve its intended purpose; or (b) the Commissioner and the person against whom the order has been made have consented to an alternative order.

Rights Offerings

On April 19, 2002, Indigo completed an offering of 4,243,841 Common Shares at $3.50 per Common Share. The issue, completed by way of an offering of subscription rights to all holders of Common Shares, was fully subscribed and resulted in net proceeds of $14.5 million. Net proceeds were used to reduce overall levels of indebtedness.

On September 27, 2002, Indigo completed an offering of 2,662,755 Common Shares at $5.75 per Common Share. The issue, completed by way of an offering of subscription rights to all holders of Common Shares, was fully subscribed and resulted in net proceeds of $15.0 million which were used to fund capital expenditures including store improvements, supply chain re-design, and investment in www.chapters.indigo.ca.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	52-week period ended March 29, 2003	52-week period ended March 30, 2002[2]	52-week period ended March 31, 2001
Statement of Operations Data:			
Revenue			
Superstores	$ 528,122	$ 485,767	$ 408,849
Mall stores	173,967	183,792	195,199
Internet	39,093	34,731	51,091
Other	38,062	31,394	31,340
Total	779,244	735,684	686,479
Cost of product, purchasing, selling and administration	737,228	698,660	729,800
Earnings (loss) before the following:	42,016	37,024	(43,321)
Amortization of capital assets	23,864	29,839	28,143
Amortization of pre-opening store costs	30	452	1,033
Amortization of goodwill	—	1,087	516
EBIT(1)	18,122	5,646	(73,013)
Interest on long-term debt and financing charges	8,568	7,576	3,910
Interest on current debt	6,229	6,782	3,586
Restructuring and take-over costs	—	40,316	29,966
Earnings (loss) before income taxes & non-controlling interest	3,325	(49,028)	(110,475)
Income tax benefit (expense)	(1,900)	(600)	12,718
Earnings (loss) before non-controlling interest	1,425	(49,628)	(97,757)
Non-controlling interest	—	(1,716)	(13,285)
Net earnings (loss)	1,425	(47,912)	(84,472)
Earnings (loss) per share (basic)	0.06	(2.58)	(6.24)
Earnings (loss) per share (diluted)	0.06	(2.58)	(6.24)
Cash dividends per share	—	—	0.15
Weighted average number of common shares outstanding	22,513	18,552	13,546
Total Assets	394,777	439,832	388,810
Total Long-Term Debt	85,602	112,071	54,000

(1) Earnings before interest, taxes, dilution gain, non-recurring expenses, restructuring charges, other costs and non-controlling interest. Not necessarily defined by Canadian generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

(2) The exercise price of the rights issued in rights offerings was less than the fair market value of the shares at issuance, and changes in accounting rules since the last reporting period now require the issuer to treat the difference as it would a stock dividend. The weighted average number of common shares outstanding and earnings per share figures for those periods have been adjusted accordingly and, as a result, will differ from those reported previously.

SUMMARY OF QUARTERLY RESULTS
(in thousands of dollars except per share data)

	Fiscal 2003				Fiscal 2002			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	174,247	277,454	171,207	156,336	170,638	273,891	155,870	135,285
Net income (loss)	(8,535)	30,771	(7,629)	(13,182)	(28,484)	18,799	(31,270)	(6,957)
Earnings (loss) per share (basic)	(0.36)	1.28	(0.36)	(0.63)	(1.52)	1.34	(2.37)	(0.54)
Earnings (loss) per share (diluted)	(0.36)	1.21	(0.36)	(0.63)	(1.52)	1.22	(2.37)	(0.54)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

The following discussion and analysis of the consolidated financial position and results of operations is based primarily on the consolidated financial statements of Indigo. It should be read in conjunction with the consolidated financial statements and notes contained in Indigo's 2002 Annual Report. Some financial measures discussed in the following discussion and analysis are not necessarily defined by generally accepted accounting principles and may not be comparable to similar measures presented by other companies.

52 Weeks Ended March 29, 2003, Compared to 52 Weeks Ended March 30, 2002

Results of Operations

Total consolidated revenues increased 5.9% to $779.2 million from $735.7 million last year. Comparative store sales were up 5.3% in Chapters and Indigo superstores due to strong in-store customer service efforts as well as meaningful improvements in inventory management and merchandising. Comparative store sales for mall stores were down 0.2% reflecting a general decline in mall traffic in the second half of the year. Online sales grew 12.6% driven by improvements in selection and delivery along with increased marketing and promotional activity. Other revenues generated from the sale of Indigo's loyalty cards, as well as Indigo's proportionate share of revenues from the Calendar Club and Campus Bookstores joint ventures, increased by 21.2%.

Operating earnings increased 13.5% to $42.0 million from $37.0 million last year driven by higher sales, improved margins and reduced warehousing and distribution costs. Amortization decreased to $23.9 million from $31.4 million last year due to the write-down of capital assets.

Net profit for the year was $1.4 million ($0.06 per share) as compared to a net loss of $47.9 million ($2.58 per share) last year. The net loss for fiscal 2002 included restructuring charges of $40.3 million relating to store closures and other charges associated with the merger of Indigo and Chapters Inc. No such restructuring charges were incurred this year.

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

	52-week period ended March 29, 2003	52-week period ended March 30, 2002	52-week period ended March 31, 2001
Revenue (in thousands)			
Superstores	**$ 528,122**	$ 485,767	$ 408,849
Mall stores	**$ 173,967**	$ 183,792	$ 195,199
Other retail	**$ 38,062**	$ 31,394	$ 29,995
Indigo Distribution Centre	**-**	-	$ 1,345
Indigo Online	**$ 39,093**	$ 34,731	$ 51,091
Total	**$ 779,244**	$ 735,684	$ 686,479
Comparable store sales			
Superstores	**5.3%**	1.1%	(1.6%)
Mall stores	**(0.2%)**	3.7%	(3.0%)
Stores opened			
Superstores (opened and acquired)	**0**	16	7
Mall stores	**0**	0	7
Campus bookstores	**0**	0	2
Total	**0**	16	16
Stores closed			
Superstores	**2**	3	0
Mall stores	**8**	17	34
Total	**10**	20	34
Number of stores opened at year-end			
Superstores	**88**	90	77
Mall stores	**179**	187	204
Campus bookstores	**6**	6	6
Total	**273**	283	287
Selling square footage at year-end (in thousands)			
Superstores	**2,123**	2,164	1,883
Mall stores	**476**	496	536
Campus bookstores	**38**	38	38
Total	**2,637**	2,698	2,457

Seasonality

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to other retailers. The following table sets forth revenues and net earnings (loss) for the preceding twenty fiscal quarters.

Revenues and Net Earnings (Loss) for the Fiscal Quarter Ended On About:

	June 30	September 30	December 31	March 31
		(thousands of dollars)		
Fiscal 2003 Revenue	156,336	171,207	277,454	174,247
Net Earnings (Loss)	(13,182)	(7,629)	30,771	(8,535)
Fiscal 2002 Revenue	135,285	155,870	273,891	170,638
Net Earnings (Loss)	(6,957)	(31,270)	18,799	(28,484)
Fiscal 2001 Revenue	136,880	154,055	247,550	147,994
Net Earnings (Loss)	(12,714)	(7,778)	8,996	(72,976)
Fiscal 2000 Revenue	122,352	148,120	234,695	155,142
Net Earnings (Loss)	(9,449)	27,758	9,733	(10,847)
Fiscal 1999 Revenue	100,692	120,970	210,647	145,571
Net Earnings (Loss)	(3,281)	(1,639)	16,113	(892)

Overview of Consolidated Statements of Financial Position

Total assets decreased by $45.1 million as compared to the fiscal year ended March 30, 2002. Merchandising and supply chain improvements resulted in an overall inventory decrease of $21.0 million despite higher sales, while an increased focus on receivable management contributed to a $3.4 million reduction in the receivables balances. Net capital assets were down $8.9 million (amortization of $23.9 million offset by capital expenditures of $14.1 million) as Indigo continued its efforts to streamline its real estate portfolio.

Share capital increased by $29.9 million as compared to the fiscal year ended March 30, 2002 due to the issuance of shares as described above.

Total liabilities decreased by $71.6 million as compared to the fiscal year ended March 30, 2002. Indigo reduced its net long-term debt by $26.5 million ($31.0 million repayment of long-term debt offset by $3.0 million in deferred interest on outstanding convertible notes). In addition, inventory management and other cost control initiatives contributed to a $35.9 million decrease in bank indebtedness and a $9.0 million decrease in accounts payable and accrued liabilities.

Overview of Consolidated Statements of Cash Flows

Cash decreased by $0.7 million during the year. Operations generated $50.4 million in cash, which was used to fund $14.1 million in investing activities and $37.0 million in financing activities.

Of the cash generated by operations, changes in working capital increased cash by $19.0 million. This increase primarily relates to a decrease in inventory of $21.0 million, a decrease in receivables of $3.4 million, a decrease in income taxes recoverable of $4.8 million, offset by a net decrease in accounts payable and accrued liabilities of $9.0 million.

Net cash used in investing activities consisted of capital expenditures of $14.1 million, including $8.6 million for store renovations and $5.5 million for technology related projects.

During the year, Indigo repaid $31.0 million of long-term debt. In addition, Indigo decreased its bank indebtedness by $35.9 million, and issued $29.9 million in equity by way of rights offerings.

Liquidity and Capital Reserves

Based on current operating levels, management expects cash flow generated from operations and its available borrowing capacity under Indigo's credit facility to be sufficient to meet its working capital needs and debt service requirements.

However, there can be no assurance that operating levels will not deteriorate over the ensuing fiscal year, which could result in Indigo being unable to meet its current working capital and debt service requirements. In addition, other factors, not presently known to management, could materially and adversely affect Indigo's future cash flow. In such events, Indigo would be required to obtain additional capital as is necessary to satisfy its working capital and debt service requirements from other sources. Alternative sources of capital could result in increased dilution to shareholders and may be on terms that are not favourable to Indigo.

Risks and Uncertainties

Competition

The retail bookselling business is highly competitive. Specialty bookstores, independents, other book superstores, regional multi-store operators, supermarkets, drug stores, warehouse clubs, mail order clubs, internet booksellers, mass merchandisers and other retailers offering books are also a source of competition for Indigo. Aggressive merchandising or discounting by competitors in either the retail or online sectors could reduce Indigo's market share and its operating margins.

Economic Environment

Traditionally, retail businesses are highly susceptible to market conditions in the economy. A decline in consumer spending could have an adverse effect on Indigo's financial condition. Other variables such as unanticipated increases in merchandise costs, increases in labour costs, unanticipated changes in inventory levels, increases in shipping rates or interruptions in shipping service, higher interest rates or the success of Indigo's strategic initiatives could also unfavourably impact Indigo's financial performance.

Leases

The average unexpired lease term of Indigo's mall stores is approximately 2.2 years. Indigo attempts to renew these leases as they come due on favourable terms and conditions, but is susceptible to volatility in the market for shopping mall space. Unanticipated increases in occupancy costs, store closing costs or relocation expenses could unfavourably impact Indigo's performance. With an average unexpired lease term of 7.3 years, Indigo's superstore rental expense is expected to remain stable.

Dependence on Key Personnel

Indigo's continued success will depend to a significant extent upon its management group. The loss of the services of key personnel, particularly Ms Reisman, could have a material adverse effect upon Indigo.

Regulatory Environment

The distribution and sale of books is a regulated industry in which foreign ownership is generally not permitted under the *Investment Canada Act*. As well, the sourcing and importation of books is governed

by the Book Importation Regulations to the *Copyright Act (Canada).* There is no assurance that the existing regulatory framework will not change in the future or that it will be effective to prevent foreign owned retailers from competing in Canada.

52 Weeks Ended March 30, 2002, Compared to 52 Weeks Ended March 31, 2001

Results of Operations

Total consolidated revenues increased 7.2% to $735.7 million from $686.5 million in fiscal 2001. The sales increase was primarily attributable to operating an additional 13 superstores, offset by a sales decrease as a result of operating 17 fewer traditional format stores and lower sales at Chapters Online.

Consolidated earnings before interest, taxes, amortization, restructuring charges, take-over costs and non-controlling interest was $37.0 million compared to a loss of $43.3 million in fiscal 2001. This represents an improvement of $80.3 million.

The consolidated net loss for the year was $47.9 million ($3.03 per share) as compared to a net loss of $84.5 million ($6.24 per share) in fiscal 2001, a $36.6 million or a 43.3% improvement.

Excluding restructuring and take-over costs, the net loss was $7.6 million ($0.48 per share) as compared to a net loss of $54.5 million ($4.02 per share) in fiscal 2001. This represents an improvement of $46.9 million ($3.54 per share).

Restructuring and take-over costs of $40.3 million relate to store closures and other costs associated with the Indigo Merger. Restructuring and take-over costs amounted to $30.0 million in fiscal 2001. The restructuring and take-over costs are comprised of $24.0 million in capital asset write downs, $11.9 million relating to store closings, $1.7 million relating to relocation and other costs associated with the acquisition and $2.7 million in refinancing charges. Of the total restructuring and take-over costs, approximately $15.9 million are cash charges, of which $6.1 million have been paid. The balance of approximately $24.4 million relates to non-cash transactions.

Income tax expenses were $600,000 as compared to an income tax recovery of $12.7 million in fiscal 2001. The decrease was due to the fact that income tax benefits were not recognized in fiscal 2002 due to cumulative losses in previous periods in accordance with Canadian generally accepted accounting principles.

The weighted average number of shares outstanding for the year were 15.8 million as compared to 13.5 million in fiscal 2001. The increase is a result of the issuance of shares relating to the acquisitions of Old Indigo and the non-controlling interest in Chapters Online, the employee stock purchase plan and the subscription rights offering.

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

	52-week period ended March 30, 2002	52-week period ended March 31, 2001	52-week period ended April 1, 2000
Revenue (in thousands)			
Superstores	**$ 485,767**	$ 408,849	$ 376,307
Traditional bookstores	**$ 183,792**	$ 195,199	$ 217,771
Other retail	**$ 31,394**	$ 29,995	$ 27,450
Indigo Distribution Centre	**-**	$ 1,345	$ 67
Indigo Online	**$ 34,731**	$ 51,091	$ 38,714
Total	**$ 735,684**	$ 686,479	$ 660,309
Comparable store sales			
Superstores	**1.1%**	(1.6%)	(3.1%)
Traditional bookstores	**3.7%**	(3.0%)	(4.0%)
Stores opened			
Superstores (opened and acquired)	**16**	7	16
Traditional bookstores	**0**	7	0
Campus bookstores	**0**	2	3
Total	**16**	16	19
Stores closed			
Superstores	**3**	0	0
Traditional bookstores	**17**	34	30
Total	**20**	34	30
Number of stores opened at year-end			
Superstores	**90**	77	70
Traditional bookstores	**187**	204	231
Campus bookstores	**6**	6	4
Total	**283**	287	305
Selling square footage at year-end (in thousands)			
Superstores	**2,164**	1,883	1,751
Traditional bookstores	**496**	536	604
Campus bookstores	**38**	38	35
Total	**2,698**	2,457	2,390

Retail

Sales were $701.0 million as compared to $635.4 million in fiscal 2001, an increase of $65.6 million or 10.3%. Earnings before interest, taxes, amortization and restructuring and take-over costs increased to $38.9 million from a loss of $10.2 million in fiscal 2001, an increase of $49.1 million. The increase, as compared to fiscal 2001, can be attributed to improved gross margin dollars and reduced warehousing and distribution costs offset by higher occupancy and labour costs due to the additional 13 superstores.

Revenues at the Chapters and Indigo superstores, including the World's Biggest Bookstore, grew to $485.8 million, an 18.8% increase compared to revenue of $408.9 million in fiscal 2001. The growth in revenue was generated by the operation of 16 additional superstores offset by the closure of 3 such stores, as compared to fiscal 2001 and positive performance on a comparable store basis. Comparative store sales increased 1.1% in fiscal 2002 as compared to a decline of 1.6% in fiscal 2001.

Total traditional store revenues declined to $183.8 million, a decrease of $11.4 million or 5.8% in comparison to $195.2 million in fiscal 2001. The decline in revenue was the result of operating 17 fewer traditional bookstores or approximately 8% less stores as compared to fiscal 2001. The comparative store sales increase of 3.7% during the year was a significant improvement over the 3.0% decline in fiscal 2001. The total number of stores as at the end of fiscal 2002 was 187 as compared to 204 stores in fiscal

2001. This decrease in traditional stores is consistent with the Indigo's strategic direction of reducing its traditional store portfolio.

Other Retail

Other revenues generated from the sale of Indigo's loyalty cards, as well as Indigo's proportionate share of revenues from the Calendar Club and Campus Bookstores joint ventures, were $31.4 million as compared to $30.0 million in fiscal 2001.

Online

Revenues were $34.7 million as compared to $51.1 million in fiscal 2001, a decrease of $16.4 million or 32.1%. The decline was attributable to less aggressive marketing, discounting and promotional activities during the year as compared to fiscal 2001. Losses before interest, taxes, amortization and restructuring charges were reduced by $31.2 million to $1.9 million due to significant reductions in operating costs as a result of restructuring activities undertaken during fiscal 2002.

Interest Expense

Interest expense during fiscal 2002 increased by $6.9 million. This was due to a higher average level of bank indebtedness and an increase in long term borrowings.

Seasonality

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to other retailers. The following table sets forth revenues and net earnings (loss) for the preceding twenty fiscal quarters from the retail operations only.

Retail Revenues and Net Earnings (Loss) for the Fiscal Quarter Ended On About:

	June 30	September 30	December 31	March 31
		(thousands of dollars)		
Fiscal 2002 Revenue	125,929	148,994	263,505	162,525
Net Earnings (Loss)	(5,080)	(8,358)	20,049	(8,880)
Fiscal 2001 Revenue	123,943	140,993	231,478	137,629
Net Earnings (Loss)	(3,773)	444	17,930	(8,755)
Fiscal 2000 Revenue	118,683	141,720	222,526	138,599
Net Earnings (Loss)	(4,274)	(1,339)	15,801	472
Fiscal 1999 Revenue	100,692	120,970	210,073	144,103
Net Earnings (Loss)	(3,281)	(1,639)	17,066	527
Fiscal 1998 Revenue	80,467	93,383	176,931	105,830
Net Earnings (Loss)	(3,449)	(2,143)	14,912	(900)

Overview of Consolidated Statements of Financial Position

Total assets increased by $51.0 million as compared to the fiscal year ended March 31, 2001. The net increase was primarily due to an increase in inventory of $29.5 million as a result of operating 13 additional superstores at the end of fiscal 2002, an increase in goodwill of $56.3 million as a result of the acquisition of Old Indigo and the acquisition of the non-controlling interest in Chapters Online. These increases were offset by a reduction in net capital assets of $23.8 million, primarily due to restructuring activities in the year and a reduction in cash balances of $10.7 million.

Total liabilities increased by $78.3 million as compared to the fiscal year ended March 31, 2001. The net increase was primarily due to a $4.6 million increase in bank indebtedness, a $15.8 million increase in accounts payable and accrued liabilities and a $58.1 million increase in long term debt and convertible debentures.

Primarily as a result of issuing shares as part of the acquisition of Old Indigo, acquisition of the non-controlling interest in Chapters Online, and issuance of shares by way of an offering of subscription rights, share capital increased by $18.7 million as compared to the fiscal year ended March 31, 2001.

Financing Activities

In August 2001, Indigo re-negotiated its financing arrangements. The amended and restated credit agreement provides for revolving line of credit of up to $75 million and long-term debt of $104 million, of which $54 million was used to repay senior secured notes on August 14, 2001. During fiscal 2002, $20 million of the long-term debt was repaid in accordance with the credit agreement.

As part of the refinancing arrangements undertaken by Indigo, a refinancing fee of $2.7 million was paid to the previous senior secured note holders in order to repay the debt before maturity.

Overview of Consolidated Statements of Cash Flows

Cash decreased by $10.7 million in fiscal 2002 as compared to a $17.5 million decrease in fiscal 2001. The net decrease in cash in fiscal 2002 was a result of cash used by operations of $2.6 million, cash used in investing activities of $11.5 million and cash provided by financing activities of $3.4 million.

Of the cash used by operations, changes in non-cash working capital decreased cash by $11.3 million. This decrease primarily relates to an increase in inventory of $7.5 million, a net decrease in accounts payable and accruals of $4.4 million, offset by other items amounting to $0.6 million.

Net cash used in investing activities consisted of capital expenditures of $9.6 million and outflows relating to the acquisition of Old Indigo and Chapters Online of $5.7 million, offset by a decrease of short term investments $3.8 million.

Indigo obtained its financing through a combination of bank financing and an equity issue. During fiscal 2002, Indigo obtained bank financing of $104.0 million and repaid $74.0 million of long-term debt. In addition, Indigo decreased it's bank indebtedness by $32.5 million, paid $4.2 million relating to its refinancing and issued $10.0 million in equity by way of a rights offering and shares issued through its Employee Stock Purchase Plan.

52 Weeks Ended March 31, 2001, Compared to 52 Weeks Ended April 1, 2000

Results of Operations

Indigo results for the fiscal year ended March 31, 2001, were significantly impacted by a number of events, particularly non-recurring one-time costs relating to the take-over bid and the ongoing operational issues at both Pegasus and Chapters Online.

On a consolidated basis, sales at $686.5 million increased by $26.2 million or 4.0% over fiscal 2000. Sales increased 2% or $12.5 million to $634.0 million at Indigo Retail, while at Chapters Online, sales increased 32% or $12.4 million to $51.1 million. Pegasus third-party sales increased $1.3 million; however, continued operational losses and inefficiencies in Pegasus and Chapters Online, in addition to non-recurring one-time charges of $69.4 million, resulted in a consolidated net loss for Indigo of $84.5 million in the year, as compared to net earnings of $17.2 million in the previous fiscal year. Net earnings in fiscal 2000 include a dilution gain on sale of Chapters Online and Pegasus of $41.1 million.

Indigo could not sustain the continued losses at Pegasus and Chapters Online and accordingly, management began the strategic restructuring of those businesses. As a result, Indigo exited the wholesale distribution business, significantly reduced overheads in both subsidiaries and combined the back office support functions to deliver an efficient and cost-effective service. The costs of these restructuring initiatives, in addition to the costs of the take-over bid, resulted in Indigo recording a one-time charge of $30.0 million (see "— Restructuring and Other Costs").

Concurrent with the exit from the wholesale business, new management conducted a review of the inventory on hand at Pegasus and in the retail operations. Management concluded that a provision of $24.7 million was necessary to clear inventory originally purchased for the wholesale business and to clear slow-moving inventory in the retail chain. Additionally, system process and control problems at Pegasus resulted in Indigo recording a charge of $14.7 million for inventory shrink over and above the historical inventory shrink results of 2.1% of sales. These inventory provisions, totalling $39.4 million, were allocated to Indigo Retail and Pegasus in the amounts of $20.3 million and $19.1 million, respectively.

During the year, Indigo retail operations improved, with sales increasing $12.5 million or 2.0% over the prior fiscal year to $634.0 million. Earnings before interest, taxes, depreciation and amortization ("EBITDA") of $46.2 million, excluding allocated one-time inventory provisions, increased $3.2 million or 7.5% over the prior fiscal year. The inventory provisions were $11.9 million for slow-moving inventory and $8.4 million for inventory shrink.

Supported by extensive marketing and site development, Chapters Online sales grew in fiscal 2001 to $51.1 million, up $12.4 million or 32.0% over the prior fiscal year. The EBITDA loss for the period is $33.1 million as compared to $35.2 million in fiscal 2000, as cost increases offset sales and gross margin improvements. Excluding allocated inventory provisions, Pegasus recorded an EBITDA loss for fiscal 2001 of $17.0 million, as compared to an EBITDA loss of $16.7 million in fiscal 2000. The inventory provisions were $12.8 million to clear product purchased for the wholesale business and $6.3 million for inventory shrink. Wholesale sales failed to materialize during the year to offset the infrastructure costs established for the anticipated growth in the business.

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

	52-week period ended March 31, 2001	52-week period ended April 1, 2000	53-week period ended April 3, 1999
Revenue (in thousands)			
Superstores	$ 408,849	$ 376,307	$ 296,917
Traditional bookstores	$ 195,199	$ 217,771	$ 253,204
Other retail	$ 29,995	$ 27,450	$ 25,717
Pegasus Wholesale	$ 1,345	$ 67	$ —
Chapters Online	$ 51,091	$ 38,714	$ 2,042
Total	$ 686,479	$ 660,309	$ 577,880
Comparable store sales			
Superstores	(1.6%)	(3.1%)	3.9%
Traditional bookstores	(3.0%)	(4.0%)	0.7%
Stores opened			
Superstores	7	16	25
Traditional bookstores	7	0	1
Campus bookstores	2	3	0
Total	16	19	26
Stores closed			
Superstores	0	0	0
Traditional bookstores	34	30	45
Total	34	30	45
Number of stores opened at year-end			
Superstores	77	70	54
Traditional bookstores	204	231	261
Campus bookstores	6	4	1
Total	287	305	316
Selling square footage at year-end (in thousands)			
Superstores	1,883	1,751	1,380
Traditional bookstores	536	604	670
Campus bookstores	38	35	28
Total	2,457	2,390	2,078

Indigo Retail

	Fiscal 2001	Fiscal 2000	Variance	% Variance
		(thousands of dollars)		
Sales	634,043	621,528	12,515	2.0%
EBITDA pre-inventory adjustments	46,173	42,938	3,235	7.5%
% sales	7.3%	6.9%	0.4%	
EBITDA post-inventory adjustments	25,873	42,938	(17,065)	(39.7%)
% sales	4.1%	6.9%	(2.8%)	

Superstores

For the 52 weeks ended March 31, 2001, revenues at the 77 Chapters superstores, including the World's Biggest Bookstore, increased to $408.9 million representing 59.5% of total revenues, compared to $376.3 million or 57.0% of total revenues for the 52 weeks ended April 1, 2000. The growth in revenue was generated by the opening of seven new superstores across Canada, offset partly by a comparable store sales decline of 1.6%. The comparative sales decline was primarily attributable to Indigo's "clustering" strategy of opening multiple stores in a market, where new Indigo stores impact existing stores' sales. In addition, delivery of product to stores was hampered by a physical back-log at Pegasus, caused by inefficient systems and processes.

The seven new superstores opened during the year averaged approximately 20,300 square feet, bringing the total space occupied by superstores to 2,025,000 square feet at the end of fiscal 2001. This compares to 1,883,000 square feet of superstore space at the end of the prior fiscal year.

Traditional Stores

Revenues in the traditional store division declined to $195.2 million, representing 28.4% of total revenues in comparison to $217.8 million or 33.0% of total revenues for the 52 weeks ended April 1, 2000. The decline in revenues was the result of the closure of 34 traditional bookstores, or approximately

15% of the stores in the division, and a comparable store sales decline of 3.0%. The comparative sales decline was primarily attributable to the impact of superstores opening in close proximity to existing traditional stores and delayed shipment of product from Pegasus.

The 34 traditional stores that closed during the year were locations that were either marginally profitable, duplicate stores in the same mall, or stores impacted by the presence or upcoming opening of a superstore. Indigo will be investigating new store design concepts in order to update and revitalize the brand.

Other Retail

Other retail revenues were derived from the sales of membership cards from Indigo's *Avid Reader* and *Chapter One* loyalty programs, as well as Indigo's proportionate share of revenues from the Calendar Club and Campus Bookstores joint ventures. Other retail revenues were $30.0 million or 4.4% of total revenues as compared to $27.5 million or 4.2% of total revenues for the 52 weeks ended April 1, 2000. The increase in revenues was generated from Campus Bookstores that were in operation for the entire fiscal year compared to a partial fiscal year for the 52 weeks ended April 1, 2000. Revenues in the Calendar Club division, which operated 142 calendar kiosks (2 less than in the prior fiscal year), were basically flat to the prior year. Loyalty card revenues increased over the prior fiscal year by $1.4 million, as Indigo increased its membership base.

Chapters Online

	Fiscal 2001	Fiscal 2000	Variance	% Variance
		(thousands of dollars)		
Sales	51,091	38,714	12,377	32.0%
EBITDA	(33,135)	(35,218)	2,083	5.9%
% sales	(64.9%)	(91.0%)	26.1%	

Revenues from Indigo's subsidiary, Chapters Online, grew to $51.1 million or 7.4% of total revenues during the year, as compared to $38.7 million or 5.9% of total revenues in the previous year. The substantial increase in revenues was due to the subsidiary's aggressive marketing program and promotions, resulting in more than 1.1 million cumulative customer accounts by the end of the fiscal year.

During fiscal 2001, Chapters Online broadened its product range, first through the acquisition of www.gardencrazy.com and the launch of the www.villa.ca Web site, which offered a range of garden and home products to online shoppers. Later in the fiscal year, Chapters Online added consumer electronics and software through a fulfillment arrangement with RadioShack.

While strong sales growth continued through fiscal 2001, heavy losses persisted, and it became clear that additional financing would not be available. In November 2000, Chapters Online took the first steps to significantly reduce costs by terminating 73 employees, primarily those in merchandising roles, and initiating cancellation of several portal agreements. Orders received for the 2000 holiday selling season reached record levels but by November, fulfillment had become a serious bottleneck due to total reliance for procurement and distribution on Pegasus, which had run into acute operating and vendor problems.

On February 2, 2001, with the change in control, a more intensive restructuring was initiated. By March 15, 2001, an additional 110 employees had been terminated across all areas and levels of the organization, pricing was revised to eliminate discounting of all but the most prominent titles, and the product assortment was refocused on books, music, videos and DVDs. This latter initiative involved discontinuing consumer electronics and a complete shut-down of the www.villa.ca Web site. Further cost

reductions were achieved through elimination of triplicate roles in procurement and information systems among Indigo, Chapters Online and Pegasus, as well as a reduction in occupancy costs.

Since February 2001, the priority has been to rectify the serious fulfillment problems of the business. These were addressed in conjunction with Indigo and Indigo Distribution Centre, which had been reorganized to focus entirely on the fulfillment needs of Indigo Retail and the Chapters Online business.

Indigo Distribution Centre

	Fiscal 2001	Fiscal 2000	Variance	% Variance
		(thousands of dollars)		
Intersegment sales	130,863	76,684	54,179	70.7%
Third-party sales	1,345	67	1,278	1,907.5%
Total sales	132,208	76,751	55,457	72.3%
EBITDA pre-inventory adjustments	(16,959)	(16,656)	(303)	(1.8%)
% sales	(12.8%)	(21.7%)	8.9%	
EBITDA post-inventory adjustments	(36,059)	(16,656)	(19,403)	(116.5%)
% sales	27.3%	21.7%	(5.6%)	

Revenues in fiscal 2001 at the Indigo Distribution Centre were $132.2 million, including $1.3 million to third-party customers, compared to $76.8 million, including $67,000 to third parties, during the six months in operation during the previous fiscal year.

Cost of Product, Purchasing, Selling and Administration

	Fiscal 2001	Fiscal 2000	Fiscal 1999
		(thousands of dollars)	
Indigo Retail	608,170	578,590	530,373
Chapters Online	84,226	73,932	6,207
Pegasus	37,404	16,723	—
Total	729,800	669,245	536,580

Cost of product, purchasing, selling and administration is principally a function of sales, store expansion activity, marketing and promotional programs to drive Internet sales.

These expenses, including the one-time inventory adjustments of $39.4 million as previously noted, increased in fiscal 2001 by $60.6 million, or 9.0%, to $729.8 million from $669.2 million in fiscal 2000. Excluding the one-time inventory adjustments, these expenses increased $21.2 million or 3.2% over the prior year. The cost increase also included the opening of the seven new superstores and was offset partly by the closure of 34 traditional stores.

Amortization of Capital Assets

	Fiscal 2001	Fiscal 2000	Fiscal 1999
		(thousands of dollars)	
Indigo Retail	20,818	18,466	14,714
Chapters Online	4,850	2,953	469
Indigo Distribution Centre	2,475	1,468	—
Total	28,143	22,887	15,183

Amortization of capital assets increased by $5.2 million to $28.1 million in fiscal 2001 over that of the prior fiscal year. The net change is due to the continued capital spending on superstore openings, development of the www.chapters.ca Web site and the continued investment in the information technology required to operate the retail business, and a full year's depreciation of the capital assets of Indigo Distribution Centre. The following table details the capital expenditures over the past three years.

	Fiscal 2001	Fiscal 2000	Fiscal 1999
	(thousands of dollars)		
Indigo Retail	20,913	42,168	57,164
Chapters Online	2,228	7,758	7,238
Indigo Distribution Centre	1,984	10,634	—
Total	25,125	60,560	64,402

Amortization of Pre-Opening Store Costs

Pre-opening store costs were reduced on average in fiscal 2001 compared to those of fiscal 2000. Pre-opening costs are typically lower for stores opened in markets with an existing Indigo store, as a result of lower advertising expenditures.

The costs are amortized over a 12-month period after a new Indigo store is opened. The decrease in amortization of pre-opening costs to $1.0 million from the previous year's $2.2 million is a function of the lower number of store openings in fiscal 2001.

Amortization of Goodwill

The repurchase of the minority interest in Pegasus in the fourth quarter generated an increase of $7.5 million in goodwill. The addition gave rise to a slightly higher amortization expense of $516,000 compared to $501,000 in fiscal 2000.

Interest on Long-Term and Current Debt

Interest on long-term debt increased by $652,000 in fiscal 2001, as the debt was outstanding for the entire fiscal period in 2001.

Interest expense on current debt increased to $3.6 million in fiscal 2001 compared to $2.9 million in fiscal 2000, primarily due to higher operating line borrowings throughout the fiscal year.

Restructuring and Other Costs

In November and December 2000, Indigo initiated certain structural changes that gave rise to expenses principally associated with the restructuring of Chapters Online and the Indigo Distribution Centre.

In addition, Indigo incurred legal and professional fees in opposing the take-over by Trilogy. As a result of Trilogy's successful bid, additional costs were incurred pursuant to the change of control.

On January 18, 2001, Future Shop Ltd. ("Future Shop") announced its intention to make an offer (the "Future Shop Offer") for 100% of the Common Shares. In connection with the Future Shop Offer, Indigo and Future Shop entered into a support agreement (the "Future Shop Support Agreement") dated as of January 18, 2001, pursuant to which Indigo agreed to cooperate with Future Shop with respect to the Future Shop Offer and take all reasonable actions to support the Future Shop Offer. On February 20, 2001, pursuant to the terms of the Future Shop Support Agreement, Indigo paid Future Shop a break up fee of $7.6 million.

Expenses incurred are detailed below.

	Fiscal 2001 (thousands of dollars)
Restructuring costs	13,177
Take-over costs	8,812
Breakup fees	7,600
Goodwill write-down -Garden Crazy Ltd.	377
Total	29,966

Dilution Gain on Sale of Chapters Online and Pegasus, Net of Non-Recurring Expenses

	Fiscal 2000		
	Dilution gain	Non-recurring expenses	Total
		(thousands of dollars)	
Sale and subsequent share transactions of Chapters Online	41,167	(1,407)	39,760
Sale of Pegasus common shares	3,911	(2,583)	1,328
Total	45,078	(3,990)	41,088

In fiscal 2000, Indigo sold 30.4% of its interest in Chapters Online and 15% of its interest in Pegasus for net proceeds or $68.7 million, before non-recurring expenses, recognized a $45.1 million dilution gain as the net proceeds significantly exceeded the net asset values given up by Indigo.

In connection with the sale and separation of Chapters Online and Pegasus, Indigo incurred $2.4 million of non-recurring expenses, net of $1.6 million of related tax benefits. These costs were considered necessary to separate the two subsidiaries and included the cost of interim inventory counts, incremental information systems costs, the write-off of certain supply inventory with Indigo's old logo imprints, consulting costs to separate Indigo's purchasing and accounting functions and the write-off of certain fixed assets and duplicate costs from the former distribution facility.

Income Tax

	Fiscal 2001	Fiscal 2000	Fiscal 1999
		(thousands of dollars)	
Indigo Retail	2,322	8,249	11,142
Chapters Online	—	(5,170)	(1,940)
Pegasus	(6,304)	(9,115)	—
Other	(8,736)	(1,583)	—
Total	(12,718)	(7,619)	9,202

During fiscal 2001, Indigo recognized an income tax benefit of $12.7 million compared to $7.6 million in fiscal 2000. The primary reason for the increase relates to an increase in the net loss from operations in fiscal 2001, offset by an increase in current period tax loss benefits not recognized, in the amount of $17.0 million.

Net Earnings (Loss)

	Fiscal 2001	Fiscal 2000	Fiscal 1999
		(thousands of dollars)	
Indigo Retail	5,846	10,660	12,673
Chapters Online	(36,745)	(32,280)	(2,372)
Pegasus	(36,892)	(11,361)	—
Other	(16,681)	50,176	—
Total	(84,472)	17,195	10,301

Indigo's operational and financial activities in fiscal 2001 yielded a net loss of $84.5 million, a decrease of $101.7 million as compared to earnings of $17.2 million in the previous fiscal year. The impact of the prior year's dilution gain of $41.1 million and the after-tax restructuring cost of $21.2

million on the current year accounted for $62.3 million of the variance. Excluding the restructuring costs and non-controlling interests, Indigo incurred a net loss of $67.8 million, consisting of earnings from the retail business of $5.8 million, a net loss of $36.7 million from Chapters Online, and a net loss of $36.9 million from Indigo Distribution Centre. The losses for Chapters Online and the Indigo Distribution Centre include allocations of related interest and income taxes and exclude the non-controlling interest in the net losses.

The net loss was $6.24 per share for fiscal 2001, including the after-tax restructuring costs of $2.80 per share, compared to net earnings of $1.31 per share for the year ended April 1, 2000. The results of Indigo Retail and Pegasus include the previously noted one-time inventory adjustments of $20.3 million and $19.1 million, respectively.

Seasonality

Indigo's business is highly seasonal and follows quarterly sales and profit (loss) fluctuation patterns, which are similar to those of other retailers. The following table sets forth revenues and net earnings (loss) for the preceding twenty fiscal quarters, from the retail operations only.

Retail Revenues and Net Earnings (Loss) for the Fiscal Quarter Ended On Approximately:

	June 30	September 30	December 31	March 31
		(thousands of dollars)		
Fiscal 2001 revenue	123,943	140,993	231,478	137,629
Net earnings (loss)	(3,773)	444	17,930	(8,755)
Fiscal 2000 revenue	118,683	141,720	222,526	138,599
Net earnings (loss)	(4,274)	(1,339)	15,801	472
Fiscal 1999 revenue	100,692	120,970	210,073	144,103
Net earnings (loss)	(3,281)	(1,639)	17,066	527
Fiscal 1998 revenue	80,467	93,383	176,931	105,830
Net earnings (loss)	(3,449)	(2,143)	14,912	(900)
Fiscal 1997 revenue	71,679	75,942	153,511	88,634
Net earnings (loss)	(4,088)	(2,555)	14,111	(2,398)

Cash Flow

Cash used in operating activities amounted to negative $505,000 in fiscal 2001, compared to negative $43.6 million in the previous year. The majority of the cash-flow reduction arose from the losses incurred in Chapters Online and Pegasus, offset by improvements in non-cash working capital balances, particularly inventory, in the amount of $75.3 million.

Capital Structure

During the fiscal year ended March 31, 2001, Indigo raised $5.2 million through the issuance of 431,004 Common Shares as a result of employees exercising stock options and purchasing shares through the employee stock purchase plan. Indigo also issued 491,803 Common Shares to repurchase the 15% minority interest of Pegasus.

Capital Investments

Capital expenditures totalled $25.1 million and $60.6 million in fiscal 2001 and fiscal 2000, respectively. The decline was the result of a reduced number of store openings, reduced development costs in the Internet business and the completion of the build-out of the Indigo Distribution Centre after the start-up costs in the 52 weeks ended April 1, 2000.

DIVIDENDS

Indigo has no fixed dividend policy. Indigo intends to retain earnings to finance the growth and development of its business and does not intend to pay dividends on its common shares in the immediate future. The payment of dividends in the future will depend, among other factors, on Indigo's earnings, capital requirements and operating and financial condition, and upon Indigo receiving consent from its lenders.

MARKET FOR SECURITIES

Common shares in the capital of Indigo are listed and posted for trading on the TSE under the symbol IDG. There are currently no other classes of shares in the capital of Indigo issued or outstanding.

DIRECTORS AND OFFICERS

The following table and notes thereto state the names and municipalities of residence of all the directors and officers of Indigo as at July 29, 2003, 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 next annual meeting of shareholders of Indigo, or until such director's successor is duly elected, unless the office is earlier vacated in accordance with the by-laws of Indigo.

Name and municipality of residence	Position and/or office with Indigo	Present principal occupation, if different from office held	Period during which served as a director	Common Shares beneficially owned or controlled as at July 29, 2003
HEATHER REISMAN..... Toronto, Ontario	Chair & Chief Executive Officer	n/a	Since February 4, 2001	93,391 Common Shares
BRUCE BIRMINGHAM(1)(2)(3)(4)..... Oakville, Ontario	Director	Corporate Director	Since May 21, 2002	5,000 Common Shares
JONATHAN DEITCHER ..... Toronto, Ontario	Director	Investment Advisor, RBC Investments	Since August 7, 2001	nil Common Shares
JAMES HALL(1)(2)(4)..... Toronto, Ontario	Director	Corporate Director, Private Investor & Consultant	Since August 7, 2001	nil Common Shares
SEN. MICHAEL KIRBY(1)(2)(4) ..... Nepean, Ontario	Director	Senator, Senate of Canada	Since February 4, 2001	nil Common Shares
ROBERT LANTOS..... Toronto, Ontario	Director	Chairman & Chief Executive Officer, Serendipity Point Films Inc. (film production company)	Since March 19, 2001	5,000 Common Shares
R. JOHN (JACK) LAWRENCE..... Toronto, Ontario	Director	Chairman, Lawrence & Company Inc. (investment management company)	Since March 21, 2001	199,792 Common Shares
GERALD SCHWARTZ ..... Toronto, Ontario	Director	Chairman, Chief Executive Officer & President, Onex Corporation (diversified industrial company)	Since February 4, 2001	17,753,491 Common Shares(5)
NIGEL WRIGHT ..... Toronto, Ontario	Director	Managing Director, Onex Corporation (diversified industrial company)	Since February 4, 2001	3,950 Common Shares

DOUG CALDWELL..... Mississauga, Ontario	Chief Technology Officer	n/a	n/a	74,240 Common Shares
SUE CROFT..... Oakville, Ontario	Senior Vice-President Human Resources and Organization Development	n/a	n/a	nil
VICTOR DI RISIO ..... Toronto, Ontario	Senior Vice-President, Supply Chain	n/a	n/a	nil
PETER DRUTZ..... Richmond Hill, Ontario	Executive Vice -President, Retail	n/a	n/a	nil
KATHLEEN FLYNN..... Toronto, Ontario	Assistant Corporate Secretary	n/a	n/a	1,000 Common Shares
MICHAEL GAGNIER ..... Toronto, Ontario	Executive Vice-President, Online	n/a	n/a	519 Common Shares
DEIRDRE HORGAN..... Toronto, Ontario	Senior Vice-President, Marketing	n/a	n/a	nil
JIM McGILL..... Oakville, Ontario	Chief Financial Officer and Secretary	n/a	n/a	nil
KATHY WESTON..... Toronto, Ontario	Executive Vice-President, Procurement	n/a	n/a	2,000 Common Shares

(1) Member of Human Resources and Compensation Committee.
(2) Member of Corporate Governance Committee.
(3) Mr. Birmingham was appointed to the Board of Directors on May 21, 2002 following the resignation of Lawrence Tanenbaum as a member of the Board of Directors also effective May 21, 2002.
(4) Member of Audit Committee.
(5) Mr. Schwartz is the principal of Trilogy Retail Enterprises Inc., the General Partner of Trilogy. Trilogy owns directly or indirectly 16,528,167 Common Shares, representing approximately 69.0% of the outstanding Common Shares.

Heather Reisman — *Chair & Chief Executive Officer.* Ms Reisman has been Chief Executive Officer of Indigo since February 4, 2001. She has also been Chair, Director and Chief Executive Officer of Old Indigo and its predecessors since June 27, 1996, with the exception of the period of January 19, 2001 to June 19, 2001.

Bruce Birmingham — *Director.* Since March 2002, Mr. Birmingham has been the past President of the Bank of Nova Scotia. Prior to that, he had been President of the Bank of Nova Scotia since 1995.

Jonathan Deitcher — *Director.* Mr. Deitcher has been employed by RBC Dominion Securities since 1977. He was Vice-President and Director from January 1999 to November 2002 and is now an Investment Advisor.

James Hall — *Director.* Mr. Hall is the Senior Vice-President, Investments (Transition) for GrowthWorks (WVIS) Ltd. Prior to joining GrowthWorks (WVIS) Ltd., he was the Senior Vice-President of Working Ventures Canadian Fund Inc. and of Working Ventures II Technology Fund Inc. and held the position of Chief Investment Officer of both Working Ventures funds.

Sen. Michael Kirby — *Director.* From 1994 to 1999, Senator Kirby was the Chairman of the Standing Senate Committee on Banking, Trade and Commerce. He is currently the Chairman of the Standing Senate Committee on Social Affairs, Science and Technology.

Robert Lantos — *Director.* Mr. Lantos is a motion picture producer. He was the co-founder, Chairman and Chief Executive Officer of Alliance Communications Corporation until he sold his controlling interest in the company in 1998.

R. John (Jack) Lawrence — *Director.* Before founding Lawrence & Company in 1996, Mr. Lawrence was Deputy Chairman of Nesbitt Burns Inc., Canada's second largest investment bank, having been Chief Executive Officer of Burns Fry Limited and its predecessor companies for more than 20 years.

Gerald Schwartz — *Director.* Mr. Schwartz founded Onex Corporation, a diversified holding company, in 1983, and its predecessor, in 1977.

Nigel Wright — *Director.* Mr. Wright is Managing Director of Onex Corporation, a diversified industrial company. Prior to 1997 he was a partner of Davies, Ward & Beck, a Toronto law firm.

Doug Caldwell — *Chief Technology Officer.* Mr. Caldwell joined Indigo in September 2000 and oversees all technology decisions for Indigo's e-commerce engine and internal technology infrastructure. Previously, Mr. Caldwell spent six years with Microsoft Canada and was Practice Manager for Microsoft Canada's national e-commerce consulting practice.

Sue Croft — *Senior Vice-President, Human Resources and Organization.* Ms Croft joined Indigo in June, 2002. Ms Croft is responsible for the Human Resources and Organization Development strategies, processes and programs. Previously, Ms Croft was Vice-President, Human Resources and Organization Development at Bank of Montreal.

Victor Di Risio — *Senior Vice-President, Supply Chair.* Mr. Di Risio joined Indigo in August 2002. He is responsible for all logistics and distribution functions and is leading the company-wide business process re-engineering effort and SAP implementation. Prior to joining Indigo, Mr. Di Risio spent 11 years with Procter & Gamble in manufacturing and supply chain roles, where he was responsible for logistics in his last two years.

Peter Drutz — *Executive Vice-President, Retail.* Mr. Drutz joined Indigo in March 2003. He is responsible for all retail operations throughout the organization. Prior to joining Indigo, he was Vice-President and General Manager, Travel Service Network of American Express.

Kathleen Flynn — *Assistant Corporate Secretary.* Ms Flynn joined Indigo in February 2000 as Corporate Counsel of Chapters Online and now holds the position of General Counsel of Indigo with responsibility for legal and corporate governance matters.

Michael Gagnier — *Executive Vice-President, Online.* Mr. Gagnier joined Old Indigo in June 1996 as an information technology executive.

Deirdre Horgan — *Senior Vice-President, Marketing.* Ms Horgan joined Indigo in 1998 and is responsible for overall marketing and brand management in both the store and online businesses. Prior to joining Indigo, she was a management consultant with The Boston Consulting Group.

Jim McGill — *Chief Financial Officer and Secretary.* Mr. McGill is responsible for all corporate finance and financial reporting-related issues, in addition to real estate, legal and corporate governance matters. Prior to joining Indigo in March 2003, he spent three years building the finance function at Grocery Gateway, a successful start-up company in the online retailing sector. Prior to that, he spent nine years in the finance group at Purolator, Canada's leading overnight courier company, where he was CFO for his last four years.

Kathy Weston — *Executive Vice-President, Procurement.* Prior to joining Indigo, Ms Weston had been with Old Indigo since October 1998. Previously, she held the position of Vice-President, Finance with National Grocers/ Loblaws and Senior Vice-President, Finance with Midland Walwyn.

CORPORATE GOVERNANCE POLICY

Indigo adheres to a comprehensive Corporate Governance Policy, which incorporates the 14 guidelines for improved corporate governance as recommended by the Toronto Stock Exchange Committee on Corporate Governance in its report of December 1994.

Indigo's Corporate Governance Policy provides for, *inter alia*, the constitution and duties of an Audit Committee, a Human Resources and Compensation Committee and Corporate Governance Committee. The Audit Committee is composed solely of outside directors, all of whom are unrelated directors. The Human Resources and Compensation Committee and the Corporate Governance Committee are each composed of three outside directors, all of whom are unrelated directors.

The Audit Committee is responsible for the integrity of Indigo's internal accounting and control systems. It receives and reviews the financial statements, annual and special meeting materials and other disclosure documents of Indigo and makes recommendations thereon to the Board of Directors before such statements, materials and documents are approved by the Board of Directors. The Audit Committee communicates directly with Indigo's auditors in order to discuss audit and related matters whenever appropriate.

The Human Resources and Compensation Committee has been charged by the Board of Directors with the responsibility of reviewing and making recommendations to the Board of Directors regarding compensation policies and practices.

The Corporate Governance Committee is responsible for proposing to the full Board of Directors new nominees to the Board of Directors and for assessing directors on an ongoing basis. This committee performs the role that might otherwise be served by a nominating committee, and serves to educate new board members.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Indigo's securities, options to purchase securities and interests of insiders in material transactions is contained in the Management Information Circular of Indigo dated July 29, 2003. Additional financial information is provided in Indigo's comparative financial statements for the fiscal year ended March 29, 2003, which are included on pages 13 through 32 of Indigo's 2003 Annual Report.

Copies of the following documents, may be obtained, upon request, from the Secretary of Indigo, 468 King Street, Suite 500, Toronto, Ontario, M5V 1L8:

a) one copy of this Annual Information Form of Indigo, 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 consolidated financial statements of Indigo for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial

statements of Indigo subsequent to the financial statements for its most recently completed financial year; and

c) one copy of the Management Information Circular of Indigo dated July 14, 2003.

When the securities of Indigo are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed by Indigo in respect of a distribution of securities, the foregoing documents will be provided free of charge. At other times, Indigo may require the payment of a reasonable charge if a person who is not a security holder of Indigo makes the request.