

Indigo Books & Music Inc.

Annual Information Form

For the fiscal year ended April 3, 2010

May 31, 2010

TABLE OF CONTENTS

CORPORATE STRUCTURE	1
General	1
Principal Subsidiaries	1
DESCRIPTION OF INDIGO	2
<i>Overview of Business</i>	2
Description of the Retail Business	5
Description of the Internet Business	9
Properties	12
Sustainability	12
RISK FACTORS.....	13
DIVIDENDS	16
DESCRIPTION OF CAPITAL STRUCTURE.....	16
CONSTRAINTS.....	17
MARKET FOR SECURITIES	17
DIRECTORS AND OFFICERS.....	17
CORPORATE GOVERNANCE POLICY.....	21
Board Functioning and Independence.....	22
Board Committees	23
Ethical Business Conduct.....	24
Shareholder Communications	24
AUDIT COMMITTEE	25
Composition of the Audit Committee and Relevant Education and Experience of the Members	25
Pre-Approval Policies and Procedures	26
External Auditor Service Fees	26
TRANSFER AGENT AND REGISTRAR	26
EXPERTS	26
ADDITIONAL INFORMATION.....	26
SELECTED CONSOLIDATED FINANCIAL INFORMATION.....	28
APPENDIX A	29
Audit Committee Charter.....	29

Indigo Books & Music Inc.

CORPORATE STRUCTURE

General

Indigo Books & Music Inc. (“Indigo”, the “Company”, “we”, “us” or “our” as the context requires) is the largest book retailer in Canada, operating bookstores in all ten provinces and one territory in Canada. Indigo was formed upon the amalgamation of Chapters Inc. and Indigo Books & Music, Inc. under the *Business Corporations Act* (Ontario), pursuant to a Certificate of Amalgamation dated August 16, 2001. Subsequently, Indigo was amalgamated with Chapters Online Inc. (“Chapters Online”) under the *Business Corporations Act* (Ontario) pursuant to Articles of Amalgamation dated April 3, 2004, and with CCBC Holdings (2001) Inc. and 1526656 Ontario Limited under the *Business Corporations Act* (Ontario), pursuant to Articles of Amalgamation dated April 3, 2005. Previously, Chapters Inc. was formed upon the amalgamation of Coles Book Stores Limited and FICG Inc., under the *Business Corporations Act* (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 1L8.

Principal Subsidiaries

The following table sets forth the names of the principal subsidiaries (including limited partnerships) of Indigo as of May 31, 2010, the percentage of voting shares (or interest) owned by Indigo and the jurisdiction of incorporation or continuance of each such subsidiary (or limited partnership).

<u>Name of Subsidiary</u>	<u>Percentage Owned</u>	<u>Jurisdiction of Formation, Incorporation or Continuance</u>
Calendar Club of Canada Limited Partnership.....	50.0%	Delaware, USA
Kobo Inc.	57.7%	Ontario, Canada

Controlling Shareholder

Indigo is controlled by Trilogy Retail Enterprises Inc., the general partner of Trilogy Retail Enterprises L.P. (“Trilogy”). Mr. Gerald Schwartz, a member of our Board of Directors and the spouse of our Chair and C.E.O., Ms. Heather Reisman, is the principal of Trilogy. Prior to February 9, 2010, Trilogy owned, directly or indirectly, 15,028,167 Common Shares, representing approximately 61.21% of the outstanding Common Shares. Trilogy agreed to sell to Cormark Securities Inc. and Cormark Securities (U.S.A.) Limited on a private placement basis 2,000,000 Shares, representing approximately 8.15% of the total outstanding Shares. The transaction closed on February 9, 2010. Following this transaction, Trilogy owns, directly or indirectly, 13,028,167 Common Shares, representing approximately 52.65% of the outstanding Common Shares. As at May 31, 2010, Mr. Schwartz owns in total, directly or indirectly, 15,218,474 Common Shares, representing approximately 61.50% of the outstanding Common Shares.

FORWARD-LOOKING INFORMATION

This document contains forward-looking information within the meaning of Canadian provincial and territorial securities laws. All statements other than statements of historical facts included in this Annual Information Form, including statements regarding the prospects of the industries in which the Company operates, future plans, expected financial position and business strategy of the Company may constitute forward-looking information. The words “believe” and “expect” and other expressions of similar import, or the negative variations thereof, and similar expressions of future verbs such as “will” are predictions of or indicate future events and trends and identify forward-looking statements. Forward-looking

information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current condition and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. The forward-looking information contained in this Annual Information Form is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives, and may not be appropriate for other purposes. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Information about material factors that could cause actual results to differ materially from expectations and information about material factors or assumptions applied in making forward-looking statements may be found in this document under "Risk Factors" as well as under "Risks and Uncertainties" in the Company's Management Discussion & Analysis (52 weeks ended March 29, 2009 compared to 53 weeks ended April 3, 2010) (the "MD&A") and elsewhere in the Company's filings with Canadian securities regulators. The Company does not undertake any obligation to update publicly or to revise any of the forward-looking information contained or incorporated by reference in this document, whether as a result of new information, future events or otherwise, except as required by law.

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, toys and gifts through its 96 superstores, operating under the names Indigo, Chapters and the World's Biggest Bookstore; 150 small format stores operating under the names Coles, Indigo, Indigospirit, SmithBooks and The Book Company; and its online website, www.chapters.indigo.ca. The Company also has a 50% interest in Calendar Club of Canada Limited Partnership, which operates seasonal kiosks and year-round stores in shopping malls across Canada.

In February 2009, Indigo launched Shortcovers (www.shortcovers.com), a new digital destination offering online and mobile service that provides instant access to books, articles and blogs. On December 14, 2009, Indigo transferred the net assets of Shortcovers to a new company, Kobo Inc. ("Kobo") in exchange for common shares of Kobo. The Shortcovers website was changed to www.kobobooks.com.

On December 15, 2009, Kobo secured funding from Indigo and unrelated investors. As a result of the transaction, Indigo retained 57.7% ownership of Kobo. With its 57.7% interest, Indigo has retained control over Kobo and therefore continues to consolidate Kobo's financial results in the Company's financial statements.

Pistachio is Indigo's eco-aware lifestyle store featuring stationery, gifts and home décor, and apothecary products. A limited selection of Pistachio products are also available at our superstore locations. In 2009, Indigo closed the Yorkdale Shopping Centre location in Toronto as the demographics in this location were not a match for the Pistachio business. The street-front Pistachio location, located at Yonge & Eglinton in Toronto, remains open.

Retail Business

Indigo operates 96 superstores. Superstores are typically ten times the size of Indigo's small format stores, permitting them to carry a large title selection and provide an inviting ambience. Indigo opened six new superstores between March 28, 2009 and April 3, 2010, located in White Rock, British Columbia; Edmonton, Alberta; Calgary, Alberta; North Calgary, Alberta; Milton, Ontario; and Laval, Quebec. Indigo currently has an agreement in place to open one new superstore at Erin Mills Town Centre in Mississauga, Ontario in September 2010.

Indigo operates 143 traditional small format stores under the banners Coles, SmithBooks, and The Book Company. In addition, there are seven "new" small format stores which offer an expanded gift and paper selection, operating under the banner, Indigospirit. All small format stores are in shopping centres, street-front retail areas, airports, a hospital and shopping concourses throughout Canada. The small format stores are built on service, convenient locations and selection. Indigo continues to pursue a small format store rationalization program whereby, as leases come up for renewal, Indigo closes under-performing stores, as well as small format 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 small format stores.

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 kiosks and stores in Canadian shopping centres under the Calendar Club of Canada name. In April 1999, Indigo entered into a new limited partnership ("Calendar Club L.P.") 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. Calendar Club L.P. currently operates approximately 210 seasonal calendar kiosks and inline game stores each year.

During the fiscal year ended April 3, 2010, Indigo closed the Pistachio store at the Yorkdale Shopping Centre in Toronto. Pistachio offers a "good for you, good for the planet", environmentally friendly selection of paper, gift and organic apothecary products for everyday use. Certain Pistachio products are also sold in Indigo and Chapters superstore locations.

Internet Business

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

In February 2009, Indigo also launched Shortcovers.com, a digital destination offering both an online and mobile service to help booklovers find their next great read. Using the Shortcovers service, customers can sample or purchase books, chapters, articles and other content for immediate download to mobile devices they already own. On December 14, 2009, Indigo transferred the net assets of Shortcovers to a new company, Kobo Inc. ("Kobo"). Indigo retained a 57.7% ownership of Kobo. The Shortcovers website was changed to *www.kobobooks.com*.

eBook Market

While books have been available in electronic form for many years, awareness of this format and the availability of new devices that enable eReading are growing. As Canadians begin to explore this new,

electronic reading experience, Indigo intends to position itself as the go-to destination in Canada for eReading. Through its partnership with Kobo, Indigo provides an eReading experience to its customers, allowing them to purchase eBooks and read them on an evolving selection of smartphones and eReaders.

The emergence of the eBook category will have an impact on traditional book sales. It remains to be seen how much of eBook growth will be cannibalistic versus complementary to existing physical book sales. Indigo does anticipate substantial growth in the eBook market in the coming years, and will continue to invest in eBook-related products and services to mitigate the erosion of physical book sales that may result.

Along with this format change, there may also be significant changes in the business model by which eBooks are sold. Currently in Canada, the structure of the eBook business model is similar to that of physical books. Under this “traditional” eBook business model, an eBook has a suggested retail price established by publishers which can be discounted by the retailer when selling to the customer. Profitability in this model depends on the cost of goods sold for a specific item and the associated operating costs of selling the eBook. Under this model, a competitive market results in retailers applying higher discounts to the publisher’s suggested retail price and lower margins for retailers.

While this “traditional” model of eBook sales is still dominant in Canada, many publishers in the US market have migrated to an “agency” model for eBook sales. Under the agency model, publishers set an eBook list price to which retailers must conform. Upon the sale of an eBook in this model, a retailer is paid a percentage of the list price as a commission, as established by the publisher, as an “agent” fee. From the retailer’s perspective, traditional discounting is no longer an option under the agency model. While this new agency model has yet to be introduced in Canada, Indigo expects that many publishers will begin moving eBooks to this model in the coming months. Under the agency model all retailers sell eBooks at the same list price and the margins for retailers are fixed based on the agent fee negotiated with the publisher. [

On May 1, 2010, Indigo began selling the Kobo eReader in many of its superstore and small format stores, and through its online and kiosk channels. While this device is an important part of an eReading experience, Indigo will continue to support eReading via the Kobo service on a variety of devices available to Canadians.

Indigo Distribution Centre

Indigo maintains a 306,600 square foot distribution facility in Brampton, Ontario. The facility is used for the distribution of retail products and as a fulfillment centre for the online operations.

In June 2009, a project was approved to open a second facility that will become the fulfillment centre for the online business. The new online fulfillment centre will be 162,800 square feet and is scheduled to open in summer 2010. This facility will support an increased assortment of books and general merchandise product for online customers. A new warehouse management system will be implemented in the online warehouse.

A second phase of this project will begin in fall 2010 to upgrade the existing facility to more efficiently support the retail stores. The project scope will replace the warehouse management system and upgrade the material handling equipment. The improvements are expected to be completed by spring 2011.

Tax Loss Transaction

In April 2010, Indigo purchased a company, the sole asset of which is certain tax losses, from a public company controlled by Mr. Gerald W. Schwartz, who is also the controlling shareholder of Indigo.

Indigo acquired this company with \$69.6 million of non-capital tax losses in exchange for net cash consideration of \$7.7 million. The amount included transaction costs shared between the two companies. This transaction was recorded at the exchange amount. As a result, the Company recorded a future tax asset of \$20.7 million and the difference of \$13.0 million between the net cash consideration and the future tax asset was recorded as a deferred credit, included in accounts payable and accrued liabilities. In connection with this transaction, the Company obtained an advanced tax ruling from Canada Revenue Agency. The transaction was also unanimously approved by the Audit Committee, all the members of which are independent directors.

Previously, in March 2009, Indigo purchased a company, the sole asset of which is certain tax losses, from a public company controlled by Mr. Gerald W. Schwartz, who is also the controlling shareholder of Indigo. Indigo acquired this company with \$23.1 million of non-capital tax losses in exchange for net cash consideration of \$2.9 million. In connection with this transaction, the Company obtained an advanced tax ruling from Canada Revenue Agency, and Grant Thornton LLP, an independent accounting firm retained by the Company's Audit Committee, provided an opinion that the value paid by the Company for the tax losses was fair. The transaction was unanimously approved by the Audit Committee, all the members of which are independent directors.

Normal Course Issuer Bid

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

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

The NCIB will expire on November 1, 2010. As of May 31, 2010, Indigo has purchased 33,513 Common Shares for an average purchase price of \$13.32 under the current NCIB.

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

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

Under Indigo's previous NCIB, which was in effect from May 12, 2008 through May 11, 2009, Indigo purchased 356,625 of its common shares at an average price of approximately \$14.09 per share.

Description of the Retail Business

Superstores

Indigo operates its superstores under the names Indigo Books & Music, Indigo Books • Gifts • Life, Indigo Books • Gifts • Kids, Chapters, and the World's Biggest Bookstore in all ten provinces of Canada. These superstores are typically about ten times the size of Indigo's small format stores. In the 53 weeks ended April 3, 2010, these stores accounted for sales of \$670.5 million, representing 69.2% of total revenues. In the 52 weeks ended March 28, 2009, these stores accounted for sales of \$634.7 million, representing 67.5% 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. to 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 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 kiosks in all superstores to give retail customers access to much the same inventory of books that is 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", "kids" and "gift and lifestyle".

Real Estate. Indigo operates 96 superstores. The size of an Indigo 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 10,000 to 67,000 square feet, with the majority being between 20,000 and 30,000 square feet compared to an average of approximately 2,600 square feet for small format stores. The total superstore selling footage is 2,216,914 square feet. All Indigo superstores are leased.

Small format Stores

Indigo operates its small format stores in all ten provinces and one territory in Canada under the names Coles, Indigo, Indigospirit, SmithBooks and The Book Company. These stores are typically located in retail shopping centres, street-front retail areas, major airports, a hospital and central business districts. Coles is the leading shopping centre bookstore chain in Canada, in terms of both sales and number of stores. Indigo's small format stores generated combined sales of \$157.4 million in the 53 weeks ended April 3, 2010, representing 16.3% of total revenues. In the 52 weeks ended March 28, 2009, these stores accounted for sales of \$166.3 million, representing 17.7% of total revenues.

Convenience Shopping. Indigo's small format 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.

Small format 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, a hospital and other core retail locations across Canada is the most significant factor contributing to their ongoing sales performance.

Real Estate. Indigo operates 143 traditional small format stores under the banners Coles, SmithBooks, and The Book Company. Additionally there are seven "new" small format stores which have an expanded gift and paper offering, operating under the banner Indigospirit. There were three small format store closures and three small format store openings between April 1, 2007 and March 29, 2008, and four small format store closures and one small format store opening between March 30, 2008 and March 28, 2009, and five small format store closures and no small format store openings between March 29, 2009 and April 3, 2010.

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

New Concept Stores

During the fiscal year ended March 28, 2009, Indigo opened two new concept stores under the Pistachio banner. Pistachio offers a "good for you, good for the planet", environmentally friendly selection of paper, gift and organic apothecary products for everyday use. During the fiscal year ended April 3, 2010, Indigo closed one of the stores operating under the Pistachio banner as the demographics of the location were not a match for the Pistachio offering. The Yonge & Eglinton, Toronto street-front location remains open. Certain Pistachio products are also sold in Indigo and Chapters superstore locations.

Loyalty Program

Indigo's *irewards* customer loyalty program for which customers pay an annual fee, operates at its superstores, small format stores and online, and provides members with a discount on all book purchases. Indigo believes that the program is important in generating significant customer commitment and value growth. In addition, the transaction and demographic information provided by the program provides a means to understand customer behaviour and respond with a variety of sophisticated marketing and service strategies that generate measurable contribution to the business. The *irewards* program had a combined total enrollment of approximately 975,000 members at the end of March 2010.

Information Systems

In the fiscal year ended March 29, 2008, Indigo launched a new online community for booklovers that was part of an overall initiative to increase customer loyalty.

In the fiscal year ended March 28, 2009, Indigo deployed new Kiosks into all of its superstores to make it easier to search for products in store and to enable richer merchandising. Additionally, Indigo deployed a new customer database to manage customer information and loyalty cards across all channels. Finally, Indigo became compliant with the industry standard known as ISBN 13 moving to 13 digit Industry Standard Book Numbers ("ISBN").

In the fiscal year ended April 3, 2010, Indigo undertook several information system initiatives. These initiatives included the upgrade of Indigo's SAP Enterprise Resource Planning (ERP) system and the introduction of support for Chip and PIN credit cards. Additionally, Indigo introduced a new personalized marketing system to allow for personalized recommendations to be provided to Indigo customers, a continuation of the customer loyalty program. Finally, Indigo introduced a number of enhancements to its online site, chapters.indigo.ca, including support for payment via debit card and a refreshed customer experience. Indigo also invested significantly in the Payment Card Industry ("PCI") compliance program which it expects to complete in the fiscal year ending April 2, 2011.

Purchasing

Indigo's category managers have significant book industry experience, each specializing in one or more subject areas, such as fiction, history, architecture and science. Indigo purchases its books from more than 25 major publishers.

Currently, Indigo has an active list of approximately 500,000 titles. Each year, Indigo's category managers are presented with 60,000 to 75,000 new titles for consideration, of which approximately 25,000 are chosen for addition to Indigo's title list, while approximately 20,000 to 25,000 titles are de-

listed annually. In addition, Indigo offers up to 2 million titles online through www.chapters.indigo.ca and, when requested by a customer, Indigo will special order any book currently in print.

Approximately 85% of all titles 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 25% to 30% of the books purchased under these arrangements.

In order to maximize the average transaction revenues generated from customers who visit either small format stores or superstores, Indigo is focusing on the expansion of its gift and paper program. While the sale of books and book-related products are expected to continue to be the single most important product line for Indigo, management believes that other merchandise can effectively add incremental revenues to existing store sales.

In addition to building a gift program, Indigo has built an educational toy business as an adjunct to its children's books business. Management believes this is a strong long-term opportunity both in stores and online and the Company will continue to add toy programs to existing stores and to expand the online toy business.

The music business, specifically the retail compact disc business, has faced significant competitive challenges over the last several years. Indigo has not been immune to this pressure. Indigo currently offers "full-line" music/DVD departments in less than one-fifth of its superstores. Management is actively seeking to reduce the Company's exposure to this business. Indigo will continue to decrease the number of stores with a music/DVD section and will use this space for the continued expansion of its toy program.

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.

In April 2010, the Government of Canada issued a one-time ruling to allow U.S. online retailer, Amazon.com Inc., to operate a distribution centre in Canada. Amazon had previously operated in Canada via a third-party operated distribution centre.

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 April 3, 2010, Indigo employed a total of approximately 6,700 people (on a full-time and part-time basis). The number of part-time customer experience representatives (CERs) employed by Indigo fluctuates based upon seasonal demand. In 2010, Indigo introduced an employee scheduling system that enables more effective scheduling of employees in our stores. Employee development has been focused on supporting growth areas in both the Kids and Gift & Lifestyle areas and providing managers with change management skills. In addition, Indigo implemented SAP Human Capital Management system for improved payroll and information management capability.

Since May 22, 2009, Indigo has had no collective agreements in place.

Trade Names and Trademarks

Indigo is the owner of numerous trademarks and trade names that are registered in Canada, including: INDIGO and design; INDIGO! KIDS; INDIGO; INDIGO AT YOUR SERVICE; INDIGO AT YOUR SERVICE and design; INDIGO BOOKS MUSIC & MORE; INDIGO LOVE OF READING FOUNDATION; LOVE OF READING; INDIGO TRUSTED ADVISOR; INDIGOBABY; INDIGOLIFE; INDIGOMIX; INDIGOSPIRIT; INDIGOFLOWERS; CHAPTERS; CHAPTERS & DESIGN; CHAPTERS BOOKSTORE; CHAPTERS OUTLET; CHAPTERS.CA; CHAPTERS.INDIGO.CA; CHAPTERS ONLINE; WWW.CHAPTERS.CA and design; COLES; COLES FOR KIDS; COLES NOTES; COLES THE BOOK PEOPLE; COLES THE BOOK PEOPLE! and design; ACTIVE MINDS — COLES FOR KIDS; BOOKTALK; THE BOOK COMPANY and design; CULTURAL DEPARTMENT STORE; GREAT BOOKS ARE JUST THE BEGINNING; PROSPERO BOOKS; SMITHBOOKS; VOICES ADVISORY PANEL; and WORLD'S BIGGEST BOOKSTORE.

Protection of the Indigo and Chapters trademarks and associated design presentation is highly important to Indigo. The remaining trademarks and intellectual property rights are also considered an important asset of Indigo. Indigo will defend all of its intellectual property vigorously where appropriate. The registrations of Indigo's trademarks are renewable. Procedures are in place to ensure timely renewals.

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 Toronto Stock Exchange ("TSX"), with Chapters Inc. 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. Thereafter, Chapters Online became a wholly owned subsidiary of Indigo. 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. On April 3, 2004, Chapters Online was amalgamated with Chapters Inc. and the online business is now integrated into the overall business.

Overview of Business

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

In September 2007, the site expanded to include a community platform (the “Community”) to enhance the online experience, and to provide additional services to our customers. The Indigo Community innovatively combines the best of social networking functionality with a set of user generated content tools designed specifically with the booklover in mind. Indigo Community members include authors, artists, employees and customers.

In February 2009, Indigo also launched Shortcovers.com, a digital destination offering both an online and mobile service to help booklovers find their next great read. Using the Shortcovers service, customers can sample or purchase books, chapters, articles and other content for immediate download to mobile devices they already own. On December 14, 2009, Indigo transferred the net assets of Shortcovers to a new company, Kobo Inc. (“Kobo”), www.kobobooks.com. Indigo retained a 57.7% ownership of Kobo.

On December 15, 2009, Kobo secured \$5.0 million of funding from Indigo and \$11.0 million of funding from US based Borders Group Inc.; Instant Fame, a division of Cheung Kong (Holdings) Limited of Hong Kong; and REDGroup Retail PTY Ltd of Australia, (collectively the “Unrelated Investors”). Common shares were issued to Indigo and the Unrelated Investors at a price of \$1.00 per common share. Indigo holds a total of 15,000,000 common shares of Kobo resulting in 57.7% ownership. The Unrelated Investors invested a total of \$11.0 million in exchange for 11,000,000 common shares and 42.3% ownership in Kobo. Indigo retains control over Kobo and continues to consolidate Kobo in the Company’s consolidated financial statements.

Attracting Customers to the Website

Indigo uses a variety of different resources to attract customers to its website. The resources include: our large opt-in database; paid and natural search; and affiliate marketing.

Indigo’s affiliate program allows other website owners to link to Indigo’s website 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 website is also designed to allow affiliates to establish links to their websites quickly and easily.

The online channel also supports our *irewards* members. These members, who represent our most loyal and valuable book buyers, are attracted to and supported by the website through offers of additional discounts on books when shopping at our website.

The Indigo Community also attracts Community members to the chapters.indigo.ca website. Indigo Community members are drawn back to the site through triggered emails sent out in response to activity related to their participation in the Community, for example, when a friend recommends a book to them.

Building Customer Loyalty

Indigo’s website promotes customer loyalty and repeat purchases by providing an online experience, including the Community platform, which encourages customers to return frequently. Visitors to the website 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.

Other special features include bestseller lists, featured books, music and DVDs, themed presentations, highlighted books by Canadian authors, along with video, audio and digital content. 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.

The Community tool set allows members to build a virtual bookshelf, music shelf, or DVD shelf; join in or start up book clubs/groups; and create and comment on reviews, top ten lists, recommendations, and posts. Each Community member may customize their profile based on personal preferences, including the ability to restrict sharing information or content. This social networking community geared to booklovers enhances the customer's experience and encourages members to regularly return to the site.

Customer service and support are critical to establishing and maintaining long-term relationships with 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 frequently 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 website 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 sensitive customer information is encrypted, using advanced security systems, before it is sent to Indigo's secure server.

Indigo's online site enjoys the benefit of Indigo's large volume wholesale discounts from its "bricks and mortar" retail stores. The online business does not always match the prices of all its competitors, but merchandises effectively with a mix of price competitiveness and a wide selection of products, including many bestseller books in hardcover that offer up to a 45% discount from 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 a large number of books, music, DVDs, and toys, 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 306,600 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 website. 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.

In June 2009, a project was approved to open a second facility to serve as the fulfillment centre for the online business. The facility will be 162,800 square feet and is scheduled to open in summer 2010.

This facility will support an increased assortment of books and general merchandise product for online customers. A new warehouse management system will be implemented in the online warehouse.

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 will continue to invest in technologies that will enable it to offer its customers a convenient and user-friendly online shopping experience. Its website and e-commerce platforms use a component architecture design that is fully redundant and rapidly scalable, allowing it to increase capacity easily as well as quickly develop new applications, such as the Indigo Community and Indigo's touch screen in-store Kiosk application. The Q9 Data Centre located in Toronto, Ontario, is the primary host location for Indigo's online operations. Indigo selected this facility because it is a best in class data centre facility, particularly in terms of availability and security.

Properties

Indigo currently leases all its facilities. The average unexpired term under Indigo's existing small format store leases is approximately 3.0 years, and superstores have an average unexpired lease term of approximately 4.0 years. Indigo has commenced a shorter-term leasing strategy for its small format 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 small format stores.

Indigo leases its main headquarters at 468 King Street West, Toronto, Ontario, M5V 1L8. Indigo's headquarters are approximately 65,000 square feet in size. Indigo also leases approximately 7,000 square feet of space at 441 King Street West in Toronto, where it currently houses its real estate and online groups.

Indigo leases its Distribution Centre premises, which comprise approximately 306,600 square feet of warehouse space in Brampton, Ontario.

In June 2009, a project was approved to open a second facility to serve as the fulfillment centre for the online business. The facility will be 162,800 square feet and is scheduled to open in summer 2010. It will support an increased assortment of books and general merchandise product for online customers.

A second phase of this project will begin in July 2010 to upgrade the existing facility to more efficiently support the retail stores. The project scope will replace the warehouse management system and upgrade the material handling equipment. The improvements are expected to be completed by spring 2011.

Sustainability

As the leading Canadian retailer of books, Indigo is keenly aware of the fact that a substantial part of its environmental footprint is comprised of the paper in the books the Company sells and the paper that the Company uses internally. Indigo's environment goals include reducing the use of papers containing fibre from high-conservation value forests and working to help the Canadian publishing industry move towards more sustainable paper practices. Indigo continues to examine how it does business and is working to identify ways in which the Company can improve its operational impacts on the environment. Many areas of the business have adopted new procedures that, in addition to improving environmental performance, employee engagement, and enhancing brand reputation, may also improve the bottom line by capitalizing on operational efficiencies.

Greening our Operations

The Company is continually working to identify, measure, and utilize opportunities throughout the business in order to achieve Company-wide sustainability. These opportunities include:

- The implementation of Indigo’s Environmental Paper Policy. Through this policy, Indigo strives to reduce the carbon footprint from books by encouraging publishers to use recycled paper and is encouraging publishers to strive for a minimum of 50% recycled paper fibre in books by 2012;
- Setting a goal to reduce internal paper consumption by 25% by 2012;
- Working to achieve reductions in packaging materials which may also improve efficiency and reduce costs;
- Continuing to work to identify material-specific waste reduction opportunities. From 2007 to 2008 Indigo has seen a 30% increase in the amount of waste diverted from landfills through recycling initiatives implemented in its stores;
- Compiling energy consumption data across retail locations in an effort to better manage energy consumption, which may help to reduce both costs and our carbon footprint. The compilation of energy data represents the final stage in Indigo’s assessment of its operational carbon footprint; and
- Indigo recently developed a Book Product Donation Program which allows unsold books designated for scrapping to be donated to charity. In addition to improving waste diversion rates and decreasing costs associated with disposal, these actions resonate with Indigo employees and customers.

Corporate Social Responsibility and Employee Engagement

In fiscal 2010, Indigo’s employee survey included questions related to Corporate Social Responsibility for the first time. The inclusion of these questions has provided Indigo with a benchmark for employee perception of Indigo as an environmentally and socially responsible company.

As Indigo moves into fiscal 2011 the Company will consolidate the communications of its four responsible business practice pillars under the banner of Corporate Social Responsibility. These pillars are: Environmental Sustainability, Community Involvement (through the Love of Reading Foundation), Employee Relations, and Vendor Relations and Responsible Purchasing. It is Indigo’s goal to be recognized as a sustainability leader by Indigo’s employees, customers and retail peers.

Indigo Love of Reading Foundation

In 2004, Indigo founded the Indigo Love of Reading Foundation (the “Foundation”) to address the underfunding of Canadian elementary schools and the resulting literacy crisis. Its mission is to provide new books and education resources to high-needs elementary schools across the country through donations from Indigo, its customers, suppliers and employees. The goal is to stimulate provincial governments across the country to invest in public school libraries so every child can find their love of reading through access to engaging and relevant books.

During the fiscal year ended April 3, 2010, the Foundation raised over \$2.3 million and, since inception, has committed \$9 million to more than 90 schools in Canada to promote early literacy and the love of reading. Every year the Indigo Love of Reading Foundation commits \$1.5 million to high-needs elementary schools across the country selected using the following criteria: level of need; current and future focus on literacy; and the principal’s active role in making literacy a priority. Schools receiving the grant reflect improved literacy scores and enhanced student self esteem within their first year.

RISK FACTORS

For a discussion of risk factors relating to Indigo and its business please see the section entitled “Risks and Uncertainties” in the Company’s annual MD&A filed on SEDAR (accessible at www.sedar.com) on May 31, 2010. In addition to the assumptions and risk factors identified in the Company's MD&A, other factors that may affect future results are set out below.

Competition

The retail book selling business is highly competitive. Specialty bookstores, independent bookstores, 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 all sources of competition for the Company.

The digital book industry is also highly competitive and is undergoing rapid growth. The number of retailers selling eBooks has increased as have the number of retailers selling eReaders. The eReader industry is also changing rapidly with increased competition from new eReader devices. As the digital book industry continues to expand, increased eBook sales may impact the sales of physical books. eBooks are priced lower than physical books and if consumers reduce purchases of physical books in favour of eBooks, it could reduce the Company's revenues.

Aggressive merchandising or discounting by competitors in either the retail or online sectors could reduce the Company's market share and its operating margins.

The Company faces various risks as an Internet retailer

Business risks related to its online business include risks associated with the need to keep pace with rapid technological change, Internet security risks, risks of system failure or inadequacy, government regulation and legal uncertainties with respect to the Internet. If any of these risks materializes, it could have an adverse effect on the Company's business.

The Company's business is dependent on consumer spending patterns

Sales of books, music, gifts, toys and movies have historically been dependent upon discretionary consumer spending, which may be affected by general economic conditions, consumer confidence and other factors beyond the Company's control. In addition, sales are dependent in part on the strength of new product releases which are controlled by vendors. A decline in consumer spending on these products, or in the strength of new product releases, could have a material adverse effect on the Company's financial condition and results of operations.

External Events

Weather conditions, as well as events such as political or social unrest, natural disasters, disease outbreaks, or acts of terrorism, could have a material adverse effect on the Company's financial performance. Moreover, if such events were to occur at peak times in the Company's annual business cycle, the impact of these events on operating performance could be significantly greater than it would otherwise have been.

Inventory Risk

The Company is exposed to significant inventory risks on any product that is purchased "non-returnable" as a result of seasonality, new product launches, rapid changes in product cycles and changes in consumer tastes with respect to our products. In order to be successful, the Company must accurately predict these trends and avoid overstocking or under-stocking products. Demand for products, however, can change significantly between the time inventory is ordered and the date of sale. In addition, when the Company begins selling a new product, it may be difficult to establish vendor relationships, determine appropriate product selection, and accurately forecast product demand. For the Company's online business, a failure to optimize inventory within the fulfillment network will increase net shipping costs due to the need to make split shipments from one or more locations, complementary upgrades, and additional long-zone shipments necessary to ensure timely delivery.

The acquisition of certain types of non-book inventory, or non-book inventory from certain sources, may require significant lead-time and prepayment. The Company carries a broad selection and significant inventory levels of certain products, and it may be unable to sell products in sufficient quantities or during the relevant selling seasons.

Any one of the inventory risk factors set forth above may adversely affect our operating results.

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). In April 2010, the government of Canada issued a one-time ruling to allow U.S. online retailer, Amazon.com Inc., to operate a distribution centre in Canada. There is no assurance that the existing regulatory framework will not change in the future or that it will be effective in preventing foreign-owned retailers from competing in Canada.

Credit, Foreign Exchange, and Interest Rate Risks

The Company's credit risk is considered to be negligible as the Company only deals with highly rated financial institutions. In addition, the Company has minimal accounts receivable as its customers pay mainly by cash or credit card. The maximum exposure to credit risk at the reporting date is equal to the carrying value of the accounts receivable.

The Company's foreign exchange risk is largely limited to currency fluctuations between the Canadian and U.S. Dollars. However, the strategic partnerships entered into by Kobo, with US based Borders Group Inc., Instant Fame, a division of Cheung Kong (Holdings) Limited of Hong Kong, and REDGroup Retail PTY Ltd of Australia, are anticipated to result in sales to American, European, Asian and Australian consumers and therefore, foreign exchange risk is expected to increase as Kobo expands its operations. Kobo is in the start-up phase of operations and its current impact on foreign exchange risk is not significant. Given Indigo has determined that its foreign currency risk is manageable, the Company does not use foreign currency derivative contracts to hedge its foreign exchange risk.

The Company's interest rate risk is limited to the fluctuation of floating rates on its cash and cash equivalents. Counter-party credit risk is considered to be negligible as the Company only deals with highly rated financial institutions.

Leases

The average unexpired lease term of Indigo's superstores and small format stores is approximately 4.0 years and 3.0 years, respectively. The Company attempts to renew these leases as they come due on favourable terms and conditions, but is susceptible to volatility in the market for supercentre and shopping mall space. Unforeseen increases in occupancy costs, or costs incurred as a result of unanticipated store closing and relocation could unfavourably impact the Company's performance.

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 on Indigo.

Legal Proceedings

In the normal course of business, Indigo becomes involved in various claims and litigation. While the final outcome of such claims and litigation pending as at April 3, 2010 cannot be predicted with certainty, management believes that any such amount would not have a material impact on the Company's financial position.

Compliance with Privacy Laws

In Canada, the *Personal Information Protection and Electronic Documents Act* ("PIPEDA") was passed into law by the federal government effective as of January 1, 2001. Currently, this law applies to all organizations that collect, use or disclose personal information in the course of commercial activities, except to the extent that provincial privacy legislation has been enacted and declared substantially similar to the federal legislation. To date, certain provinces have enacted "substantially similar" private sector privacy legislation. The federal privacy legislation also regulates the inter-provincial collection, use and disclosure of personal information. Applicable Canadian privacy laws create certain obligations on organizations that handle personal information, including obligations relating to obtaining appropriate consent, limitations on use and disclosure of personal information and ensuring appropriate security safeguards are in place. In the course of its business, the Company maintains records containing sensitive information identifying or relating to individual customers and employees. Although the Company has implemented systems to comply with applicable privacy laws in connection with the collection, use and disclosure of such personal information, if a significant failure of such systems was to occur, the Company's business and reputation could be adversely affected.

Other

The Company's performance may also be affected by other specific risks that may be highlighted from time to time in other public filings of the Company available on the Canadian securities regulatory authorities' website at www.sedar.com. The Company cautions that the preceding discussion of factors that may affect future results is not exhaustive. When relying upon forward-looking statements to make decisions with respect to the Company, investors and others should carefully consider these factors, as well as other uncertainties, assumptions, potential events and industry and Company specific factors that may adversely affect future results. The Company assumes no obligation to update or revise them to reflect new events or circumstances.

DIVIDENDS

In fiscal 2010, Indigo implemented a quarterly cash dividend of \$0.10 per common share, or \$0.40 per share annually on its common shares. In fiscal 2010, Indigo paid a total of \$0.40 per share in dividends. Indigo did not pay dividends in fiscal years 2009 or 2008. On April 19, 2010, Indigo announced a 10% increase in its quarterly cash dividend to \$0.11 per common share, or \$0.44 per share annually on its common shares. Indigo has no contractual restrictions that would limit its ability to pay dividends in the future. Future declaration of quarterly dividends and the establishment of future record and payment dates are subject to the final determination of the Company's Board of Directors.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Indigo consists of an unlimited number of Common Shares, of which 24,744,915 Common Shares are issued and outstanding as at May 31, 2010.

Each Common Share entitles the holder thereof to one vote at meetings of shareholders of Indigo and to participate equally and rateably in any dividends declared on the Common Shares by the Board of

Directors of Indigo, and in any remaining property or assets of Indigo that may be distributed in the event of voluntary or involuntary liquidation, dissolution or winding-up of Indigo.

CONSTRAINTS

For a discussion of constraints imposed on the ownership of Indigo’s securities please refer to the section “Description of the Retail Business—*Regulatory Environment*”.

MARKET FOR SECURITIES

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

The following table sets out the price ranges and volumes traded for Indigo’s Common Shares on a monthly basis for each month in fiscal 2010:

	OPEN (\$)	HIGH(\$)	LOW (\$)	CLOSE (\$)	VOLUME
April 2009	10.75	11.99	10.75	11.99	18,812
May 2009	11.95	14.00	11.56	13.70	105,424
June 2009	13.75	13.98	12.85	13.44	115,531
July 2009	13.50	13.79	12.02	12.02	105,449
August 2009	12.18	12.35	11.85	12.25	222,546
September 2009	12.12	13.34	12.00	13.00	728,119
October 2009	13.27	13.59	12.50	13.30	118,240
November 2009	13.57	13.59	12.72	13.50	132,786
December 2009	13.28	15.98	13.26	15.75	169,341
January 2010	15.70	17.25	15.03	16.19	507,701
February 2010	16.00	17.49	15.11	17.48	1,192,408
March 2010	17.25	18.07	16.26	17.88	599,823

DIRECTORS AND OFFICERS

The following table and notes thereto state the names and provinces or states of residence of all the directors and officers of Indigo as at May 31, 2010, 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.

<u>Name, Province or State and Country</u>	<u>Position and/or office with Indigo</u>	<u>Present principal occupation, if different from office held</u>	<u>Period during which served as a director</u>	<u>Common Shares beneficially owned or controlled as at May 22, 2009⁽⁵⁾</u>
HEATHER REISMAN..... Ontario, Canada	Chair & Chief Executive Officer	n/a	Since February 4, 2001	98,391 Common Shares
BONNIE BROOKS ⁽⁶⁾ Ontario, Canada	Director	President and CEO, the Bay, Hudson's Bay Company	Since May 23, 2009	nil Common Shares
FRANK CLEGG ^{(1) (3)} Ontario, Canada	Director	Chairman, Navantis Inc. (custom computer software application developer)	Since February 1, 2005	nil Common Shares
JONATHAN DEITCHER ⁽²⁾ Quebec, Canada	Director	Investment Advisor, RBC Investments	Since August 7, 2001	nil Common Shares
MITCHELL GOLDHAR..... Ontario, Canada	Director	President & Chief Executive Officer, SmartCentres	Since February 2, 2006	nil Common Shares
JAMES HALL ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Director	President & CEO, James Hall Advisors Inc.	Since August 7, 2001	nil Common Shares
MICHAEL KIRBY ⁽¹⁾⁽²⁾⁽³⁾ Ontario, Canada	Director	Corporate Director Chair of the Mental Health Commission of Canada	Since February 4, 2001	nil Common Shares
BRUCE MAU..... Illinois, USA	Director	Chairman and Creative Director, Bruce Mau Design	Since November 1, 2007	nil Common Shares
ANNE MARIE O'DONOVAN ⁽³⁾ Ontario, Canada	Director	Executive Vice President and Chief Administration Officer, Scotia Capital	Since December 27, 2009	nil Common Shares
GERALD SCHWARTZ..... Ontario, Canada	Director	Chairman, President and Chief Executive Officer Onex Corporation (diversified company)	Since February 4, 2001	15,218,474 Common Shares ⁽⁴⁾
KAY BREKKEN Ontario, Canada	Chief Accounting Officer SVP Finance	n/a	n/a	nil Common Shares
KATHLEEN FLYNN..... Ontario, Canada	General Counsel and Corporate Secretary	n/a	n/a	1,000 Common Shares
JOYCE GRAY..... Ontario, Canada	Executive Vice President Retail & Customer Experience	n/a	n/a	nil Common Shares
DEIRDRE HORGAN..... Ontario, Canada	Chief Marketing Officer	n/a	n/a	nil Common Shares
ROSS MARANCOS..... Ontario, Canada	Executive Vice President Supply Chain	n/a	n/a	nil Common Shares
JIM MCGILL..... Ontario, Canada	Chief Operating Officer and Chief Financial Officer	n/a	n/a	5,000 Common Shares
SUMIT OBERAI..... Ontario, Canada	Chief Information Officer	n/a	n/a	800 Common Shares
JOEL SILVER..... Ontario, Canada	President	n/a	n/a	3,100 Common Shares
ANDREW SLOSS..... Ontario, Canada	Executive Vice President, Online	n/a	n/a	nil Common Shares

(1) Member of Human Resources and Compensation Committee.

(2) Member of Corporate Governance Committee.

(3) Member of Audit Committee.

(4) Mr. Schwartz is the principal of Trilogy Retail Enterprises Inc., the general partner of Trilogy Retail Enterprises L.P. ("Trilogy"). Trilogy owns directly or indirectly 13,028,167 Common Shares, representing approximately 52.65 % of the outstanding Common Shares.

(5) As at May 31, 2010, our Directors and Executive officers as a group, beneficially owned, directly or indirectly, or exercised direction or control over 15,326,765 Common Shares, representing approximately 61.94% of the outstanding Common Shares.

(6) Ms. Brooks will join the Board of Directors on May 23, 2009. Ms Brooks has been the President & CEO, the Bay, Hudson's Bay Company since September 2008. From 2003 to 2008 Ms. Brooks was the President of Lane Crawford Joyce Group, a Hong Kong based department store chain.

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 Indigo and its predecessors. Prior to the merger of Indigo and Chapters, Ms. Reisman was Chief Executive of Indigo Books & Music, Inc. Ms. Reisman is also the chair of Kobo Inc.

Bonnie Brooks – Director. Bonnie Brooks is the President and CEO of The Bay, Hudson’s Bay Company. Ms. Brooks has spent more than 25 years building prestige retail formats around the world, including Holt Renfrew, Lane Crawford, Harvey Nichols, and leading designer brand stand-alone stores in Asia. Most recently, Ms. Brooks was the President of the Lane Crawford Joyce Group based in Hong Kong. She has also served as Editor-in-Chief of FLARE, Canada’s largest fashion and lifestyle magazine. Ms. Brooks holds an MBA from the University of Western Ontario.

Frank Clegg — Director. Frank Clegg was President of Microsoft Canada Co. from September, 2000 to January, 2005. Prior to that he was Vice President, Central Region of Microsoft Corporation. Mr. Clegg is also a member of the board of directors of Kobo Inc. Mr. Clegg is a member of the Indigo Audit and HR & Compensation Committees.

Jonathan Deitcher — Director. Jonathan Deitcher is an investment advisor with RBC Dominion Securities where he has been employed since 1977. He served as a Director at RBC from November 2000 to September 2003. Mr. Deitcher has been a Vice-President at RBC since August 2004. Mr. Deitcher is a member of Indigo’s Corporate Governance Committee.

Mitchell Goldhar — Director. Mitchell Goldhar is the owner of SmartCentres, a private real estate development company. SmartCentres has developed over 210 shopping centres across Canada in the last 15 years. Mr. Goldhar holds a B.A. in Political Science from York University and is in his 10th year as an adjunct professor with the Joseph L. Rotman School of Management, University of Toronto. He is also a member of the Board of Directors of the Calloway Real Estate Investment Trust and the Sick Kids Foundation.

James Hall — Director. Mr. Hall is President & CEO of James Hall Advisors Inc., a financial advisory firm. Mr. Hall is a director of Global Credit Pref Corp. and Immunovaccine Inc. and was, until March 2009, Chairman and Chief Executive Officer of Journal Register Company. Mr. Hall is Chair of Indigo’s Human Resources and Compensation Committee and is a member of the Audit Committee and the Corporate Governance Committee.

Michael Kirby — Director. From January 1984 to October 2006 Michael Kirby was a member of the Senate of Canada. From 1994 to 1999, he was the Chairman of the Standing Senate Committee on Banking, Trade and Commerce. From 1999 to 2006 he was the Chairman of the Standing Senate Committee on Social Affairs, Science and Technology. Mr. Kirby is the Chair of the Audit Committee and a member of the Executive Committee of the Bank of Nova Scotia and the Chair of the Audit Committee of the Just Energy Income Fund. Mr. Kirby is Indigo’s Lead Director, the chair of the Audit and Corporate Governance Committees and is a member of the Human Resources and Compensation Committee.

Bruce Mau – Director. Bruce Mau is the Chief Creative Officer of Bruce Mau Design. As the creative force driving studios in Chicago and Toronto, Mau recognizes that the complex challenges of the future demand innovation across disciplines and industries. Clients of BMD include Coca-Cola, Frank Gehry, Herman Miller, Arizona State University, MOMA, McDonalds, MTV, New Meadowlands Stadium and Shaw Industries among others. Since founding his studio in 1985, Mau has used design and optimism to originate, innovate, and renovate businesses, brands, products, and experiences.

Anne Marie O'Donovan – Director. Anne Marie O'Donovan, FCA - Director. Anne Marie O'Donovan is the Executive Vice President and Chief Administration Officer for Scotia Capital. She is responsible for finance, technology, operations, strategy and governance for the wholesale and capital markets businesses of Scotiabank. Ms O'Donovan was previously a partner with Ernst & Young, and is a member of the Risk Oversight and Governance Board of the CICA. She holds an HBA from the Ivey School of Business at the University of Western Ontario. Ms O'Donovan is a member of Indigo Audit Committee.

Gerald Schwartz — Director. Mr. Schwartz founded Onex Corporation, one of North America's oldest & largest Private Equity firms, in 1984. Mr. Schwartz is presently the chairman and chief executive officer of Onex and a director of Celestica Inc. Mr. Schwartz was inducted into the Canadian Business Hall of Fame in 2004 and was appointed an Officer of the Order of Canada in 2006

Kay Brekken – SVP Finance and Chief Accounting Officer. Ms. Brekken joined Indigo in November 2003 and is responsible for Indigo's accounting policies and internal and external financial reporting. Prior to joining Indigo, she served as CFO and VP of Regional Operations for Medical Consultants Network and was previously with Deloitte & Touche and KeyBank.

Kathleen Flynn — General Counsel and Corporate Secretary. Ms. Flynn joined Indigo in February 2000 as Corporate Counsel of Chapters Online, then Corporate Counsel of Chapters Inc. and now holds the position of General Counsel and Corporate Secretary of Indigo with responsibility for legal and corporate governance matters. Previously, Ms. Flynn was corporate counsel with Sears Canada Inc. Ms. Flynn holds an LLB from Queen's Law School and a Masters Degree in law from Osgoode Hall.

Deirdre Horgan — Chief Marketing Officer. 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 Operating Officer and Chief Financial Officer. Mr. McGill is responsible for all corporate finance and financial reporting-related issues, in addition to Human Resources, Supply Chain and Information Technology. Prior to joining Indigo in March 2003, he spent three years building the finance function at Grocery Gateway, a start-up company in the online retailing sector.

Sumit Oberai — Chief Information Officer. Sumit Oberai joined Indigo in April 2006 and is responsible for all Information Technology functions. Prior to Indigo, Sumit was SVP, Engineering at Eloqua, a venture backed marketing automation firm and a consultant for McKinsey & Company where he focused on strategy & operations for technology and telecom clients. Before that, he held various technology leadership roles at Critical Path, DocSpace, and Nortel Networks. Sumit holds a Masters of Business Administration from INSEAD, a Masters of Computer Engineering from University of Toronto, and a Bachelors of Mathematics & Engineering from Queen's University where he graduated as the Gold Medalist.

Joel Silver — President. Mr. Silver joined Indigo in December 2003 and is responsible for the trade print, bargain, gift, toy, music and DVD businesses across all channels. Prior to Indigo, he served as CEO in several start-up companies including SalesDriver, an online sales incentive company as well as Opencola, a pioneering search application.

Joyce Gray — Executive Vice President, Retail and Customer Experience. Joyce Gray joined Indigo in July 2007 and is accountable for retail operations, customer service and store performance. Prior to joining Indigo, Ms. Gray managed The Gap's North East Territory. Prior to The Gap, Ms. Gray was EVP of Marketing at Wild Escape Theme Park in Omaha and Vice President, Business & Strategic Planning with Disney Entertainment.

Ross Marancos — *Executive Vice President, Supply Chain*. Ross Marancos joined Indigo in July 2007 and is accountable for inventory management, transportation, warehousing and master data. Prior to joining the Indigo organization, Mr. Marancos served as Director of Supply Chain for Whirlpool Canada and Senior Director Supply Chain at KRAFT Canada Inc.

Andrew Sloss— *Executive Vice President, Online*. Andrew Sloss joined Indigo in September 2009 and is responsible for the growth and profitability of the online business. Prior to joining Indigo, Andrew was the general manager of eBay and Kijiji Canada, Canada's leading online marketplace and classifieds platforms. Andrew holds a Masters of Business Administration from the Kellogg Graduate School of Management, and a Bachelor of Applied Science in Systems Design Engineering from the University of Waterloo.

CORPORATE GOVERNANCE POLICY

The Board of Directors is responsible for the supervision of our management and for approving our overall direction in a manner which is in our best interests. The Board of Directors participates fully in assessing and approving strategic plans and prospective decisions proposed by management. To ensure that the principal business risks that are borne by Indigo are appropriate, the Board of Directors receives periodic reports from management of its assessment and management of such risks. The Board of Directors regularly monitors our financial performance. This monitoring function often entails review and comment by the Board of Directors on various management reports. Our internal accounting and control procedures are monitored by the Audit Committee of the Board of Directors on behalf of the Board of Directors. The Audit Committee reviews detailed financial information contained in management reports and hears and acts upon the recommendations of Indigo's auditors. In respect of senior management succession planning, the Board of Directors is involved in identifying candidates from within and outside Indigo to fill senior management positions. The mandate of the Board is attached as Appendix "A" to Indigo's Management Information Circular dated May 31, 2010 and filed with the Canadian securities regulatory authorities on SEDAR on June 7, 2010.

As a practice, the Board of Directors approves significant corporate communications with shareholders. The Board of Directors currently consists of ten members, all of whom are standing for re-election. Indigo has historically endeavoured to have a sufficient number of directors to encourage a variety of opinions on matters which come before the Board of Directors, while at the same time limiting its membership to a number of directors that facilitates effective and efficient decision making. While there are no specific criteria for Board of Directors membership, we seek to attract directors with a wealth of business knowledge and a diversity of business experience.

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

Director	Reporting Issuer
Heather Reisman	Onex Corporation J Crew Group, Inc.
Mitchell Goldhar	Calloway Real Estate Investment Trust
James Hall	Global Credit Pref Corp. Immunovaccine Inc.
Michael Kirby	The Bank of Nova Scotia Extendicare REIT MDC Partners Inc. Just Energy Income Fund Immunovaccine Inc.
Gerald Schwartz	Onex Corporation Celestica Inc.

Of the Board of Directors, Ms. Brooks, Ms. O’Donovan, Messrs. Clegg, Deitcher, Goldhar, Hall, Kirby, and Mau are considered by the Board of Directors to be “independent directors” within the meaning of the National Instrument (as defined in Indigo’s Management Information Circular dated May 31, 2010). The remaining two members are not independent within the meaning of the National Instrument, Ms. Reisman being a member of management, and Mr. Schwartz being Ms. Reisman’s spouse. The Board of Directors therefore has a majority of independent directors. A number of directors possess an extensive knowledge of the retailing and distribution businesses in Canada, and their participation as directors contributes to the effectiveness of the Board of Directors.

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

Indigo is controlled by Trilogy which, directly or indirectly, owns approximately 52.65% of the total number of our outstanding Common Shares and is a “significant security holder” within the meaning of the National Instrument. Mr. Schwartz controls Trilogy.

Board Functioning and Independence

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

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

- Eight of the Company's ten directors are independent;
- The Audit Committee is comprised solely of independent directors and meets on a regular basis; and
- All of the Board's Committees are comprised exclusively of independent directors.

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

- At each regular meeting, the Board shall routinely meet with Ms. Reisman and the Company's Chief Financial Officer without the presence of other members of management to consider any matter not easily or appropriately discussed in the larger forum. The topics discussed may include the effectiveness of the meeting just concluded, the performance of any individual member of management or the Board, the performance of the Board itself, or, indeed, any matter of concern to any director;
- The Board, at each meeting other than unscheduled meetings called for the sole purpose of approving specific transactions, shall have a session in the absence of Ms. Reisman, or any other member of management;
- The performance of Ms. Reisman will be considered in the absence of Ms. Reisman and Mr. Schwartz at least once a year when her compensation is settled; and
- Any member of the Board may provide to the Lead Director agenda items for discussion at any meeting and the Lead Director has the right to place items on the Board's agenda in his or her discretion.

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

Board Committees

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

The Audit Committee is composed solely of independent 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 is composed solely of independent directors. The Human Resources and Compensation Committee has been charged by the Board of Directors with the responsibility of reviewing and making recommendations to the Board of Directors regarding compensation policies and practices. Specifically, the Committee's charter provides that the Committee

shall: obtain appropriate information about compensation policies and payments by Canadian companies of a comparable size to Indigo; establish objectives, evaluate performance, recommend compensation, and develop a process for succession planning; review and approve appointments, promotions, terminations of senior management; and recommend grants of stock options subject to the Board of Directors' subsequent ratification.

The Corporate Governance Committee is composed of three Outside Directors, all of whom are independent. It is responsible for proposing to the full Board of Directors new nominees to the Board of Directors and for assessing directors on an ongoing basis. The Committee uses an annual questionnaire of Board members on corporate governance and the effectiveness of the Board as a tool to assess individual directors and the Board as a whole. The Committee establishes qualifications for new directors, and evaluates proposed directors against this framework. This committee performs the role which might otherwise be served by a nominating committee, and serves to educate new board members by providing an information package of all relevant governance material, and by inviting new members to conduct due diligence on the Company, and to interview existing independent Directors. The Committee promotes continuing education for existing Board members by providing informative material to the Board in advance of regular Board meetings and by regularly holding periodic educational sessions for Directors, at which senior management make presentations. These educational sessions, which coincide with regular Board meetings, cover one or more aspects of the business, and typically follow an informal presentation and open discussion format.

Committees are empowered to engage, or to request that management engage, outside advisors at our expense. The Board of Directors would consider any such request by an individual member of the Board of Directors on its merits at the time it was made.

Ethical Business Conduct

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

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

Shareholder Communications

Indigo endeavours to keep all shareholders well informed as to the financial performance of Indigo, primarily by means of its annual and quarterly reports.

Indigo shall provide to any person, upon request, a copy of: (i) the annual information form ("AIF"); and (ii) the comparative 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 for any subsequent fiscal periods, provided that Indigo may require payment of a reasonable charge if the request is made by a person who is not a security holder of Indigo.

With the approval of the Board of Directors, management has appointed Ms. Heather Reisman, the CEO of Indigo, as the individual responsible for receiving shareholder inquiries and dealing with shareholder concerns. While being guided by regulatory requirements and Indigo's policies with respect to confidentiality and disclosure, Ms. Reisman is available for interviews by stakeholders, including

analysts, the media and investors. Ms. Reisman endeavours to respond promptly and appropriately to all such requests and/or inquiries.

AUDIT COMMITTEE

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

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

The Audit Committee is composed of: Frank Clegg, James Hall, Michael Kirby, and Anne Marie O'Donovan all of whom are independent and financially literate within the meaning set out in National Instrument 52-110.

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

Mr. Hall is a Chartered Accountant and a director and member of the audit committee of Global Credit Pref Corp. and a director and chair of the audit committee of Immunovaccine Inc. and was, until March 2009, Chairman and Chief Executive Officer of Journal Register Company. He previously served as chair of the audit committees of Terravest Income Fund and General Donlee Income Fund, and was a member of the audit committee of Journal Register Company. Mr. Hall is Chair of Indigo's Human Resources and Compensation Committee and is a member of the Audit Committee and the Corporate Governance Committee.

Mr. Kirby is Chairman of the Mental Health Commission of Canada and a corporate director. Mr. Kirby was a member of the Senate of Canada from 1984 until 2006. He holds a B.Sc. and M.A. in mathematics from Dalhousie University and a PhD in Applied Mathematics from Northwestern University.

Mr. Kirby sits on the boards of Extencicare REIT, MDC Partners Inc., Just Energy Corporation, Indigo Books and Music Inc., The Bank of Nova Scotia and Immunovaccine Inc. Mr. Kirby is Chair of the Audit Committee and the Risk Committee of Just Energy Income Fund, Chair of the Board of Immunovaccine Inc, Chair of the Audit Committee and member of the Executive and Risk Committee of the Bank of Nova Scotia, Chair of the Audit Committee and the Corporate Governance Committee of Indigo Books and Music. He is Chair of the Extencicare Human Resources and Corporate Governance Committees, the Chair of the Human Resources Committee of MDC Partners Inc., and a member of MDC Partners Inc. Audit and Corporate Governance Committees. Mr. Kirby was the Vice Chair of the Accounting Standards Oversight Council. Previously, Mr. Kirby was Chair of the Standing Senate Committee on Banking, Trade and Commerce, the Senate Committee which handles all business legislative and regulatory issues, and was Chair of the Standing Senate Committee on Social Affairs, Science and Technology. In addition, at different times during the period from 2002 to 2007, Mr. Kirby served as a director of the following publicly-traded companies: Azure Dynamics Corp., Brainhunter Inc., Maxxcom Inc., CPI Plastics Group Ltd., and Extencicare Inc.

Mr. Kirby is Indigo's Lead Director, the chair of the Audit and Corporate Governance Committees and is a member of the Human Resources and Compensation Committee.

Ms. O'Donovan is a Chartered Accountant and has held numerous financial management roles including her current role as EVP Chief Administrative Officer Scotia Capital. She also brings experience in governance, internal control and risk management from her previous positions as the Chief Auditor for Scotiabank and a partner at Ernst & Young.

Pre-Approval Policies and Procedures

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

External Auditor Service Fees

The following table summarizes the Audit, Audit Related, Tax Related and Other Fees (excluding expenses and taxes) of Indigo's Auditor, Ernst & Young LLP, for the two most recently completed fiscal years.

	2010	2009
Audit Fees (\$)	310,500	312,000
Audit-Related Fees (\$)	123,550	36,450
Tax Fees (\$)	151,950	139,550
All Other Fees (\$)	nil	nil
TOTAL (\$)	586,000	488,000

The foregoing fees and expenses relate to services rendered from April through March of the fiscal year, notwithstanding when the fees and expenses were billed.

In 2010, Audit-Related Fees incurred related to translation services and accounting consultations on Kobo and International Financial Reporting Standards. In 2009, Audit Related Fees incurred related to translation services. In both 2009 and 2010, tax fees related to tax compliance and tax planning/consulting services.

TRANSFER AGENT AND REGISTRAR

Indigo's transfer agent and registrar is CIBC Mellon Trust Company and Indigo's Common Share register is located at their offices at 320 Bay Street, P.O. Box 1, Toronto, ON, M5H 4A6.

EXPERTS

As at the date hereof, the partners and associates of our auditor, Ernst & Young LLP do not beneficially own, directly and indirectly, any Common Shares of Indigo. Ernst & Young LLP is independent of the Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information, including Directors' and Officers' remuneration and indebtedness, principal holders of Indigo's securities and options to purchase securities and interests of insiders in material transactions is contained in Indigo's most recent Management Information Circular as filed with Canadian securities regulatory authorities on SEDAR on June 7, 2010. Further information can also be found on SEDAR at www.sedar.com. Additional financial information is provided in Indigo's comparative financial statements and MD&A for the fiscal year ended April 3, 2010, which are included on pages 8 through 47 of Indigo's 2010 Annual Report.

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

- a) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
- b) one copy of Indigo's consolidated financial statements for its most recently completed financial year together with the accompanying report of the auditor and one copy of any of Indigo's interim financial statements subsequent to the financial statements for its most recently completed financial year; and
- c) one copy of the Indigo's most recent Management Information Circular as filed with Canadian securities regulatory authorities on SEDAR on June 7, 2010.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	<u>53-week period ended April 3, 2010</u>	<u>52-week period ended March 28, 2009</u>	<u>52-week period ended March 29, 2008</u>
<i>(in thousands of dollars, except per share data)</i>			
Statement of Operations			
Data: Revenue			
Superstores.....	670,542	634,727	620,036
Small format stores.....	157,418	166,225	159,724
Internet	92,180	95,232	101,345
Other	48,787	44,215	41,773
Total	968,927	940,399	922,878
Cost of sales, operations, selling and administration.....	895,930	867,945	848,934
Earnings before the following: .	72,997	72,454	73,944
Depreciation of capital assets ..	19,682	22,223	29,665
Amortization of intangible assets	8,326	5,638	-
Capital assets write-off	1,086	-	-
Amortization of pre-opening store costs	-	-	144
EBIT(1).....	43,903	44,593	44,135
Interest on long-term debt and financing charges.....	214	309	786
Interest on current debt.....	(333)	(1,443)	(704)
Dilution gain on sale of non-controlling interest in subsidiary.....	(3,019)	-	-
Deemed disposition of goodwill	891	-	-
Earnings before income taxes & non-controlling interest	46,150	45,727	44,053
Income tax expense (recovery) .	12,537	15,077	(8,755)
Non-controlling interest	(1,310)	-	-
Net earnings	34,923	30,650	52,808
Earnings per share (basic)	1.42	1.24	2.13
Earnings per share (diluted).....	1.39	1.21	2.08
Weighted average number of common shares outstanding..	24,550	24,675	24,744
Total Assets.....	519,842	487,506	421,004
Total Long-Term Debt	3,037	5,006	6,028

- (1) Indigo defines EBIT as earnings before interest, taxes, non-recurring expenses and non-controlling interest. Management of Indigo believes that EBIT is an important measure in evaluating the performance of the Company. However, EBIT is not a recognized earnings measure under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore, EBIT may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBIT should not be construed as an alternative to net income or loss determined in accordance with Canadian GAAP as an indicator of Indigo's performance or to cash flows from operating activities as a measure of liquidity and cash flows. The following table reconciles EBIT to earning before income taxes and non-controlling interest, based on the historical financial statements of Indigo for the periods indicated, in thousands of Canadian dollars, presented in accordance with Canadian GAAP:

	<u>53-week period ended April 3, 2010</u>	<u>52-week period ended March 28, 2009</u>	<u>52-week period ended March 29, 2008</u>
(in thousands of Canadian dollars)			
Earnings before income taxes and non-controlling interest	46,150	45,727	44,053
add back:			
Interest	(119)	(1,134)	82
Non-recurring expenses.....	(2,128)	-	-
EBIT	43,903	44,593	44,135

APPENDIX A

Audit Committee Charter

1. Purpose

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: the financial information that will be provided to the shareholders and others, the systems of internal controls which management and the Board of Directors have established, and the Company's and its subsidiaries' audit and financial reporting process.

The independent accountants' ultimate responsibility is to the Board of Directors and the Audit Committee, as representatives of the shareholders. These representatives have the ultimate authority to evaluate and, where appropriate, recommend replacement of the external auditors.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section 5 of this Charter. The Audit Committee will, at all times, be given full access to the Company's management and records and to the external auditors as necessary to carry out these responsibilities.

2. Composition of Committee

The Audit Committee shall be comprised of four directors, each of whom will be an independent, as contemplated by *Multilateral Instrument 52-110 - Audit Committees*.

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

3. Committee Meetings

The Audit Committee will meet on a quarterly basis and will hold special meetings as circumstances require. The timing of the meetings shall be determined by the Audit Committee.

At all Audit Committee meetings a majority of the members shall constitute a quorum.

4. Relationship with External Auditors

The external auditor shall report directly to the Audit Committee.

5. Responsibilities and Duties

To fulfill its responsibilities and duties, the Audit Committee shall:

- review the accounting principles, policies and practices followed by the Company and its subsidiaries in accounting for and reporting its financial results of operations;
- review the Company's audited annual consolidated financial statements and the unaudited quarterly financial statements and recommend to the Board for approval prior to publicly disclosing this information. Also review and recommend to the Board for approval any accompanying related documents such as the Annual Information Form or equivalent filings and the Management's Discussion and Analysis prior to publicly disclosing this information;
- review the annual and interim draft earnings press releases quarterly and recommend to the Board for approval prior to publicly disclosing this information;
- satisfy itself that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures;
- recommend to the Board of Directors the selection of the external auditors in connection with preparing or issuing an auditor's report or with performing other audit, review or attesting services for the Company;
- recommend to the Board of Directors the compensation of the external auditors;
- 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 Company, including the resolution of disagreements between management and the external auditors regarding financial reporting;
- obtain, on an annual, basis a formal written statement from the external auditors delineating the relationship between the audit firm and the Company, and review and discuss with the external auditors such relationship to determine the "independence" of the auditors;
- review any management letter prepared by the external auditors concerning the Company's internal financial controls, record keeping and other matters and management's response thereto;
- discuss with the external auditors their views about the quality of the implementation of Canadian Generally Accepted Accounting Principles, 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 Company's financial personnel;
- approve the scope of the annual audit, the audit plan, the access granted to the Company's records and the co-operation of management in any audit and review function;
- review the effectiveness of the independent audit effort, including approval of the fees charged in connection with, the annual audit, any quarterly reviews and any non-audit services being provided;

- assess the effectiveness of the working relationship of the external auditors with management;
- review the financial risk management policies followed by the Company in operating its business activities and the completeness and fairness of any disclosure thereof. Review the use of derivative financial instruments by the Company;
- review and approve any management decision relating to any potential need for internal auditing, including whether this function should be outsourced and if such function is outsourced, approve the supplier of such service;
- establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company;
- the Committee will determine the nature of non-audit services the external auditors are prohibited from providing to the Company. The Committee will pre-approve all non-audit services provided by the external auditors to the Company;
- review annually this Audit Committee Charter for adequacy and recommend any changes to the Board;
- report to the Board on the major items covered at each Audit Committee meeting and make recommendations to the Board and management concerning these matters. Annually report to the Board on the effectiveness of the Audit Committee; and
- perform any other activities consistent with this Charter, the Company's Bylaws and governing law as the Committee or the Board deems necessary or appropriate.

6. Authority

The Audit 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 audit committee; and
- (c) to communicate directly with the internal and external auditors.