

Indigo reverses last year's losses, shows profit for FY03 Operating Earnings Increase 13.5%

TORONTO, June 2, 2003 - Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported solid sales results in its fiscal year 2003 despite a challenging retail environment and operating fewer stores.

Superstores continued to show strong comparable sales growth in the final quarter, ended March 29, 2003, continuing sales trends in the previous three quarters. Comparative store sales at Chapters, Indigo and The World's Biggest Bookstore increased 5.3% in fiscal year 2003 as compared to a 1.1% increase the previous year. This compares very favourably with large format book retailers in the United States who confirmed essentially flat comparative stores sales.

Sales in mall stores were slightly below last year on a comparative basis, experiencing a decrease of 0.2% over fiscal year 2003 versus an increase of 3.7% the previous year, reflecting a general decline in mall traffic.

Online sales grew 12.6% and by year end were trending at close to 25%. These increases were driven by improvements in selection and delivery, as well as increased marketing and promotional activity.

Despite fewer stores and a harsh economic climate that negatively affected retail in general, Indigo's consolidated revenues rose in FY03, increasing 5.9% to \$779.2 million from \$735.7 million the year before. Operating earnings increased 13.5% to \$42.0 million from \$37.0 million last year driven by higher sales and improved margins, as well as reduced warehousing and distribution costs.

Net profit for the year was \$1.4 million or \$0.06 per share, a vast improvement over a net loss of \$47.9 million or \$2.58 per share in fiscal year 2002. The net loss for fiscal year 2002 included restructuring charges of \$40.3 million relating to store closures and other costs associated with the merger of Indigo with Chapters Inc. No restructuring charges were incurred this year.

"We are extremely pleased to have turned the profitability corner and are now committed to making Indigo an industry leading performer " said Heather Reisman, Chief Executive Officer.

The total number of superstores at the end of fiscal year 2003 was 88 as compared to 90 at the end of fiscal year 2002. The total number of mall stores was 179, compared to 187 at the end of the previous year. Store closures are part of an ongoing initiative to streamline the real estate portfolio and close under-performing locations in over-served markets.

Forward-Looking Statements

Statements contained in this news release that are not historical facts are forward-looking statements which involve risk and uncertainties that could cause results to differ materially from those expressed in the forward-looking statements. Among the key factors that could cause such differences are: general economic, market or business conditions in Canada; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company.

About Indigo Books & Music Inc.

Indigo is a Canadian company and the largest book retailer in Canada, operating bookstores in all provinces under the names *Indigo Books Music & more*, *Chapters*, *The World's Biggest Bookstore* and *Coles*. Indigo operates www.chapters.indigo.ca, an online retailer of books, gifts, videos, and DVDs.

Indigo is a publicly traded company listed on the Toronto Stock Exchange under the stock symbol IDG. To learn more about Indigo, please visit the *About Our Company* section of www.chapters.indigo.ca.

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CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

<i>(thousands of dollars*)</i>	52-week period ended March 29, 2003	52-week period ended March 30, 2002
Revenue	779,244	735,684
Cost of product, purchasing, selling and administration	737,228	698,660
	42,016	37,024
Amortization of capital assets	23,864	29,839
Amortization of pre-opening store costs	30	452
Amortization of goodwill	—	1,087
Earnings before the under noted items	18,122	5,646
Restructuring and take-over costs	—	40,316
Interest on long-term debt and financing charges	8,568	7,576
Interest on bank indebtedness	6,229	6,782
Earnings (loss) before income taxes and non-controlling interest	3,325	(49,028)
Income tax expense	1,900	600
Earnings (loss) before non-controlling interest	1,425	(49,628)
Non-controlling interest	—	(1,716)
Net earnings (loss) for the period	1,425	(47,912)
Net earnings (loss) per common share		
Basic	\$0.06	\$(2.58)
Diluted	\$0.06	\$(2.58)
Weighted average number of common shares outstanding		
Basic	22,513	18,552
Diluted	22,513	18,552

* Except per share data

CONSOLIDATED BALANCE SHEETS

<i>(thousands of dollars)</i>	As at March 29, 2003	As at March 30, 2002
ASSETS		
Current		
Cash and cash equivalents	—	677
Accounts receivable	9,383	12,817
Inventories	202,455	223,467
Income taxes recoverable	181	4,950
Prepaid expenses	5,663	4,338
Future tax assets	4,012	6,538
Total current assets	221,694	252,787
Capital assets, net	106,170	115,041
Future tax assets	6,671	4,145
Goodwill	58,458	64,570
Deferred financing fees, net of accumulated amortization of \$2,391 [March 30, 2002 - \$886]	1,784	3,289
	394,777	439,832
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	21,388	57,254
Accounts payable and accrued liabilities	189,702	198,746
Deferred revenue	6,835	6,625
Current portion of long-term debt	31,324	31,000
Total current liabilities	249,249	293,625
Accrued benefit obligations	886	1,306
Long-term debt	23,186	53,000
Convertible notes	31,092	28,071
Total liabilities	304,413	376,002
Shareholders' equity		
Share capital	193,426	163,505
Equity portion of convertible notes	1,903	1,903
Deficit	(104,965)	(101,578)
Total shareholders' equity	90,364	63,830
	394,777	439,832