Net losses reduced for Indigo despite lower sales

Year over year first quarter sales down due to 2003 Harry Potter release, planned store closures

TORONTO – July 29, 2004 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, improved net losses by $0.2 million in its first quarter over the same period last year despite weaker sales. Net losses were $11.3 million or $0.47 per share as compared to $11.5 million or $0.48 per share.

In year over year comparisons, sales in the first quarter had to contend with the single most important book launch of last year, the release in June 2003 of the fifth installment in the Harry Potter series, *Harry Potter and the Order of the Phoenix.* First quarter sales this fiscal year were down 5.1 % over the same period last year, at $155.9 million from $164.2 million. Comparative store sales were down 2.2 % in superstores and 5.6 % in mall stores. However, when normalized to exclude the Harry Potter factor, comparative sales were up in both superstores and mall stores, 0.9 % and 1.3 %, respectively.

Among other key factors influencing the sales performance in the first quarter were sporadic product shortages during the conversion to the new SAP inventory system as well as planned store closures. The Company closed 12 mall stores and one superstore between the two periods being compared.

The Potter effect significantly impacted sales online, which experienced a decrease of 6.3 % over last year, from $11.9 million to $11.2 million. But when comparing sales year over year without the Harry Potter book, online sales show a jump of 22.8 %.

Commenting on the first quarter results, Chief Executive Office Heather Reisman said: "This quarter, we knew that in year to year comparisons, we were up against an unmatched sales phenomenon with Harry Potter. However, we are pleased that we were able to improve operating costs and reduce the cost of goods sold. With the recent implementation of SAP, this positive trend should continue."

The Company also announced that David Margolis has stepped down as President and COO for personal family reasons. He will continue to work with the Company on a consulting basis. "We are grateful to David for sharing his expertise and look forward to our future collaboration." said Heather Reisman, CEO of Indigo Books & Music Inc.

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 chapters.indigo.ca, an online retailer of books, gifts, music, 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 chapters.indigo.ca.

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CONSOLIDATED BALANCE SHEETS
(Unaudited)

(thousands of dollars)	**As at July 3, 2004**	As at June 28, 2003	As at April 3, 2004
ASSETS			
Current			
Cash and cash equivalents	**$ 4,967**	$ —	$ 8,698
Accounts receivable	**6,890**	8,316	6,951
Inventories	**210,975**	201,377	199,421
Prepaid expenses	**5,207**	6,231	12,431
Future tax assets	**3,939**	4,012	3,939
Total current assets	**231,978**	219,936	231,440
Capital assets, net	**95,886**	102,303	103,146
Future tax assets	**12,640**	6,671	12,640
Goodwill	**52,496**	58,458	52,496
Deferred financing fees, net of accumulated amortization of $77 [June 28, 2003 - $2,770]	**935**	1,405	1,012
Total assets	**393,935**	388,773	400,734
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	**82,295**	33,549	63,369
Accounts payable and accrued liabilities	**166,160**	182,203	180,813
Income taxes payable	**1,572**	407	1,376
Deferred revenue	**8,524**	6,610	8,732
Current portion of long-term debt	**13,183**	31,218	13,183
Total current liabilities	**271,734**	253,987	267,473
Accrued benefit obligations	**360**	948	328
Long-term debt	**38,910**	23,186	39,263
Convertible notes	—	31,836	—
Total liabilities	**311,004**	309,957	307,064
Shareholders' equity			
Share capital	**193,926**	193,426	193,426
Contributed surplus	**535**	—	438
Equity portion of convertible notes	—	1,903	—
Deficit	**(111,530)**	(116,513)	(100,194)
Total shareholders' equity	**82,931**	78,816	93,670
Total liabilities and shareholders' equity	**$ 393,935**	$ 388,773	$ 400,734

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(thousands of dollars, except per share data)	**13-week period ended July 3, 2004**	13-week period ended June 28, 2003
Revenues	**$ 155,947**	$ 164,248
Cost of product, purchasing, selling and administration	**158,413**	166,637
	(2,466)	(2,389)
Amortization of capital assets	**7,073**	6,170
Loss before the undernoted items	**(9,539)**	(8,559)
Interest on long-term debt and financing charges	**436**	1,453
Interest on bank indebtedness	**1,211**	1,386
Loss before income taxes	**(11,186)**	(11,398)
Income tax expense	**150**	150
Net loss for the period	**$ (11,336)**	$ (11,548)
Basic net loss per common share	**$ (0.47)**	$ (0.48)
Diluted net loss per common share	**$ (0.47)**	$ (0.48)
Weighted average common shares outstanding	**24,052**	23,965