

Indigo posts increased profits and sales in third quarter

Best holiday season ever for online channel

TORONTO - February 1st, 2005 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported profits of \$33.8 million for this past quarter, \$5 million ahead of the same period last year. Total sales for the quarter were also up \$7.2 million, with the Company's online channel posting a strong increase.

The Company reported a 17% increase in net income for the third quarter, largely due to stronger sales and lower interest costs. Third quarter net earnings were \$33.8 million (\$1.40 per share) as compared to \$28.8 million (\$1.20 per share) for the same period last year.

Third quarter consolidated sales were \$286.6 million, an increase of 2.6% over sales recorded in the third quarter last year. The Company's online channel experienced a 32.3% increase over the previous year, making it the strongest holiday sales performance in its history. Online revenues were \$21.1 million as compared to \$16.0 million for the same period the year prior. Among the highlights of this past season was the introduction of iPod products on chapters.indigo.ca, which performed extremely well. At the retail level, superstore comparative sales were up 2.5% while small format stores were essentially flat at (0.6%).

"We saw strong sales throughout the holiday period until two critical shopping days, December 23 and December 26, which coincided with severe snow storms in Central and Eastern Canada, affecting traffic in the stores," commented Indigo Chief Executive Officer, Heather Reisman. "In spite of that, the overall results were positive."

The Company's income year to date was markedly ahead of last year at \$14.2 million (\$0.59 per share) compared to \$9.6 million (\$0.40 per share). This increase was driven largely by the strong results posted in the third quarter. Net revenues were down \$2.8 million, from \$613.8 million to \$611.0 million, due to a combination of factors including store closures, the sale of the campus bookstore business, the company's supply chain restructuring initiative, and the release of the fifth installment of the Harry Potter series which greatly impacted sales in 2003. Year to date comparative store sales increased 0.5% in superstores and were down 1.9% in small format stores.

In addition, CEO Heather Reisman announced the appointment of Frank Clegg, former President of Microsoft Canada, to the Board of Directors of Indigo Books & Music Inc. "We are delighted to welcome this distinguished business leader to our board." added Reisman.

The Company also reported that it paid down \$12 million in long-term debt during the quarter as part of its ongoing debt reduction efforts.

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 and movies.

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.

For further information please contact:

Sorya Ingrid Gaulin

Director of Public Relations

416-646-8965

sgaulin@indigo.ca

CONSOLIDATED BALANCE SHEETS (Unaudited)

<i>(thousands of dollars)</i>	As at January 1, 2005	As at December 27, 2003	As at April 3, 2004
ASSETS			
Current			
Cash and cash equivalents	\$ 26,597	\$ 58,067	\$ 8,698
Accounts receivable	12,414	9,377	6,951
Inventories	240,242	227,182	199,421
Income taxes receivable	153	—	—
Prepaid expenses	4,529	6,347	12,431
Future tax assets	3,939	4,012	3,939
Total current assets	287,874	304,985	231,440
Capital assets, net	91,687	101,447	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 \$264 [December 27, 2003 - \$3,529; April 3, 2004 - nil]	748	646	1,012
Total assets	445,445	472,207	400,734
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	—	—	63,369
Accounts payable and accrued liabilities	288,313	274,526	180,813
Income taxes payable	—	1,296	1,376
Deferred revenue	7,684	7,001	8,732
Current portion of long-term debt	13,183	53,266	13,183
Total current liabilities	309,180	336,089	267,473
Accrued benefit obligations	696	1,073	328
Long-term debt	26,918	1,498	39,263
Convertible notes	—	33,542	—
Total liabilities	336,794	372,202	307,064
Shareholders' equity			
Share capital	193,926	193,426	193,426
Contributed surplus	688	—	438
Equity portion of convertible notes	—	1,903	—
Deficit	(85,963)	(95,324)	(100,194)
Total shareholders' equity	108,651	100,005	93,670
Total liabilities and shareholders' equity	\$ 445,445	\$ 472,207	\$ 400,734

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

<i>(thousands of dollars, except per share data)</i>	13-week period ended January 1, 2005	13-week period ended December 27, 2003	39-week period ended January 1, 2005	39-week period ended December 27, 2003
Revenues	\$ 286,585	\$ 279,431	\$ 610,994	\$ 613,759
Cost of goods sold, selling and administration	244,382	240,628	571,424	575,835
	42,203	38,803	39,570	37,924
Amortization of capital assets	6,969	6,493	20,734	18,882
Earnings before the undernoted items	35,234	32,310	18,836	19,042
Interest on long-term debt and financing charges	388	1,342	1,254	4,240
Interest on bank indebtedness	987	1,829	3,101	4,501
Earnings before income taxes	33,859	29,139	14,481	10,301
Income tax expense	50	360	250	660
Net earnings for the period	\$ 33,809	\$ 28,779	\$ 14,231	\$ 9,641
Basic net earnings per common share	\$ 1.40	\$ 1.20	\$ 0.59	\$ 0.40
Diluted net earnings per common share	\$ 1.40	\$ 1.12	\$ 0.59	\$ 0.40