

Indigo more than doubles profits, ends the year with \$11.7 million

Earnings per share jump to \$0.49

TORONTO - June 17, 2005 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, ended its fiscal year with a profit of \$11.7 million, an increase of 129% or \$6.6 million over its results the year prior. Earnings jumped to \$0.49 per share for the fiscal year ending April 2, 2005, an increase of \$0.28 per share over the previous year end.

Total revenues for the year were \$787.5 million, down 2.3% or \$18.2mm from a year earlier. This decline can be attributed to a number of factors: the fiscal year was shorter by one week which accounted for a variance of \$12.6 million, the Company divested its Campus Store division in August of 2004 which had a \$5.1 million negative impact on revenues year over year, and the retail portfolio had a net reduction of two stores after the Company closed five locations and opened three new ones. On a comparable basis, revenues across all channels increased 1.6%.

Within the retail network, comparable superstore sales were essentially flat at -0.5% while comparable small format store sales declined by 2.3%. This decline was partially offset by the Company's online division which continued to post steady growth. Enhancements made to the site's interface, functionality, and attributes contributed to a 24.4% growth in revenue to \$64.7 million for the year

Revenues in the fourth quarter were \$176.5 million, down 8% from \$192.0 million for the same period the year prior. The quarter had one fewer week and the company operated two fewer stores as highlighted above.

Indigo Book & Music Inc. also reported that, like many North American retailers, it has reviewed its accounting practices following clarification by the Securities and Exchange Commission on lease incentives and allowances. Historically, Indigo has followed the accounting practice of recording rent expenses based on actual rent payments incurred through the life of a lease. According to recent SEC directives, the Company should have recognized rent expense on a straight-line basis over the lease term. The correction resulted in an increase in net earnings of \$1.9 million (\$0.08 per share) for the year ending April 2, 2005 and an increase in net earnings of \$0.7 million (\$0.03 per share) for the year ending April 3, 2004. The cumulative impact for periods prior to fiscal year 2004 is a net reduction in earnings of \$18.1 million. The change has no impact on the Company's cash flows, revenues or same store sales.

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

	As at April 2, 2005	As at April 3, 2004
<i>(thousands of dollars)</i>		
ASSETS		
Current		
Cash and cash equivalents	10,100	8,698
Accounts receivable	9,879	6,951
Inventories	207,643	199,421
Income taxes recoverable	455	—
Prepaid expenses	4,296	12,431
Future tax assets	10,723	10,108
Total current assets	243,096	237,609
Capital assets, net	91,277	103,146
Future tax assets	9,807	6,471
Goodwill	48,233	52,496
Deferred financing fees, net of accumulated amortization of \$340 (April 3, 2004 – nil)	672	1,012
	393,085	400,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	52,968	63,369
Accounts payable and accrued liabilities	203,248	198,199
Income taxes payable	—	1,376
Deferred revenue	7,631	8,732
Current portion of long-term debt	13,488	13,183
Total current liabilities	277,335	284,859
Accrued benefit obligations	376	328
Long-term debt	26,506	39,263
Total liabilities	304,217	324,450
Shareholders' equity		
Share capital	193,974	193,426
Contributed surplus	772	438
Deficit	(105,878)	(117,580)
Total shareholders' equity	88,868	76,284
	393,085	400,734

CONSOLIDATED STATEMENTS OF EARNINGS

	52-week period ended April 2, 2005	53-week period ended April 3, 2004
<i>(thousands of dollars, except per share data)</i>		
Revenues	787,527	805,716
Cost of product, purchasing, selling and administration	743,327	760,554
	44,200	45,162
Amortization of capital assets	27,000	24,313
Recovery of restructuring costs	(923)	—
Interest on long-term debt and financing charges	1,598	9,241
Interest on bank indebtedness	4,211	5,640
Earnings before income taxes	12,314	5,968
Income tax expense	612	876
Net earnings for the period	11,702	5,092
Net earnings per common share		
Basic	\$0.49	\$0.21
Diluted	\$0.48	\$0.21

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(thousands of dollars)</i>	52-week period ended April 2, 2005	53-week period ended April 3, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the period	11,702	5,092
Add (deduct) items not affecting cash		
Amortization	27,000	24,313
Stock-based compensation	166	113
Directors' compensation	168	325
Future income taxes	312	66
Loss (gain) on disposal of capital assets	(385)	716
Benefit plan credits	48	(558)
Accrued interest on convertible notes	—	3,259
Amortization of deferred financing fees	340	1,784
Early extinguishment of convertible notes	—	3,546
Net change in non-cash working capital balances related to operations		
Accounts receivable	(2,928)	2,432
Inventories	(8,222)	3,034
Prepaid expenses	8,135	(6,768)
Income taxes recoverable/payable	(1,831)	1,557
Deferred revenue	(1,101)	1,897
Accounts payable and accrued liabilities	5,049	(9,635)
Cash flows provided by operating activities	38,453	31,173
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(14,918)	(19,115)
Proceeds from sale of capital assets	1,160	—
Cash flows used in investing activities	(13,758)	(19,115)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(10,401)	41,981
Proceeds from share issuances	548	—
Repayment of long-term debt	(13,440)	(31,954)
Proceeds from long-term debt issuance	—	27,000
Repayment of convertible notes	—	(39,375)
Deferred financing fees	—	(1,012)
Cash flows used in financing activities	(23,293)	(3,360)
Net increase in cash and cash equivalents during the period	1,402	8,698
Cash and cash equivalents, beginning of period	8,698	—
Cash and cash equivalents, end of period	10,100	8,698