Strong sales boost earnings for Indigo

Growth attributed to product assortment and improved supply chain management

TORONTO – July 28, 2005 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported improved first quarter earnings thanks to increased sales and improved supply chain management. Net losses were $8.1 million or $0.34 per share, an improvement of 26% or $2.9 million over the same period last year. Sales in the quarter ending July 2, 2005 were $164.2 million, compared to $155.9 million for the prior year period, an increase of 5.3% ($8.2 million). On a comparative basis, superstore sales were up 5.5% and small format stores saw an increase of just under 1%.

Commenting on the key factors influencing the sales performance in the first quarter, Chief Executive Officer Heather Reisman said: "Our efforts to refine our assortment on a store-by-store basis are beginning to bear fruit. We are also benefiting from improved decision-support for customers. For example, we've seen substantial growth in our Health category thanks to the Indigo Trusted Advisor Health program, which provides specific book recommendations from leading physicians on major diseases. And our plans call for this type of approach across many more categories." In addition, the re-launch of the Gifts category less than one year ago, focusing on a more strategic assortment, has positively affected sales.

On the online front, chapters.indigo.ca continued to see significant growth, posting a 36% increase or $4.0 million over the same quarter the year prior.

"We are pleased that our investments are beginning to pay off and that our customers are responding positively to our improved product assortment." added Ms Reisman.

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 2, 2005**	As at July 3, 2004 *(Restated)*	As at April 2, 2005
ASSETS			
Current			
Cash and cash equivalents	**$ 7,834**	$ 4,967	$ 10,100
Accounts receivable	**7,522**	6,890	9,879
Inventories	**222,060**	210,975	207,643
Income taxes recoverable	**365**	—	455
Prepaid expenses	**4,879**	5,207	4,296
Future tax assets	**10,723**	3,939	10,723
Total current assets	**253,383**	231,978	243,096
Capital assets, net	**86,119**	95,886	91,277
Future tax assets	**9,807**	12,640	9,807
Goodwill	**48,233**	52,496	48,233
Deferred financing fees, net of accumulated amortization of $418 [July 3, 2004 – $77]	**594**	935	672
Total assets	**$ 398,136**	393,935	393,085
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	**66,977**	82,295	52,968
Accounts payable and accrued liabilities	**190,493**	168,245	190,250
Income taxes payable	**—**	1,572	—
Deferred revenue	**7,823**	8,524	7,631
Current portion of long-term debt	**13,488**	13,183	13,488
Total current liabilities	**278,781**	273,819	264,337
Accrued benefit obligations	**—**	360	376
Long-term accrued liabilities	**12,348**	14,937	12,998
Long-term debt	**26,049**	38,910	26,506
Total liabilities	**317,178**	328,026	304,217
Shareholders' equity			
Share capital	**194,024**	193,926	193,974
Contributed surplus	**902**	535	772
Deficit	**(113,968)**	(128,552)	(105,878)
Total shareholders' equity	**80,958**	65,909	88,868
Total liabilities and shareholders' equity	**$ 398,136**	$ 393,935	$ 393,085

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

(thousands of dollars, except per share data)	**13-week period ended July 2, 2005**	13-week period ended July 3, 2004 *(Restated)*
Revenues	**$ 164,178**	$ 155,947
Cost of goods sold, selling and administration	**164,171**	158,049
	7	(2,102)
Amortization of capital assets	**6,810**	7,073
Loss before the undernoted items	**(6,803)**	(9,175)
Interest on long-term debt and financing charges	**347**	436
Interest on bank indebtedness	**850**	1,211
Loss before income taxes	**(8,000)**	(10,822)
Income tax expense	**90**	150
Net loss for the period	**$ (8,090)**	$ (10,972)
Basic net loss per common share	**$ (0.34)**	$ (0.46)
Diluted net loss per common share	**$ (0.34)**	$ (0.46)
Weighted average common shares outstanding	**24,085**	24,052