

## Strong revenue growth for Indigo boosts earnings 28.4%

### Chapters, Indigo ranked as favourite national retailers

TORONTO - August 1<sup>st</sup>, 2006 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, continued its solid growth trend in the first quarter of this fiscal year, reporting a 28.4% improvement in earnings over the same period a year ago. Net loss improved \$2.3 million from \$8.1 million (\$0.34 per share) a year ago to a loss of \$5.8 million (\$0.24 per share) this year.

The Company reported positive operating earnings of \$2.4 million during this period, a significant improvement over break-even the prior year. This represented the first time in the Company's history that material positive operating earnings were recorded in the first quarter. A key factor driving income was strong revenue growth across all Indigo channels. Total sales increased \$6.2 million to \$170.4 million from \$164.2 million last year, a jump of 3.8%. Comparable store sales for both superstores and small format stores saw a 4.5% increase, noticeably above the reported North-American industry averages. Indigo also saw its Online division grow 7.2% to \$16.3 million.

"This was the fifth consecutive quarter in which we experienced improved revenues. Through a combination of aggressive continuous improvement and the implementation of consumer-centric programs, we are driving very positive results" commented Chief Executive Officer Heather Reisman. "As we continue to focus on growth, our goal remains to deliver simply the best customer experience in retail in Canada" she added.

In July, the Company's large format brands, Chapters and Indigo ranked as Canada's favourite national retail stores, according to Kubas Consultants' annual Major Market Retail Report. This consumer survey scores retailers on key drivers of satisfaction: customer service and quality; store layout and decor; variety and selection; and value for money.

### 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](http://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.

In 2005, the Company qualified as one of Canada's Top 100 Employers in a survey run by Mediacorp Canada. To learn more about Indigo, please visit the About Our Company section of [chapters.indigo.ca](http://chapters.indigo.ca).

## 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.

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## Consolidated Balance Sheets (Unaudited)

<i>(thousands of dollars)</i>	As at July 1, 2006	As at July 2, 2005	As at April 1, 2006
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	6,004	7,834	5,983
Accounts receivable	5,372	7,522	5,937
Inventories	216,816	222,060	214,598
Income taxes recoverable	246	365	156
Prepaid expenses	7,423	4,879	9,301
Future tax assets	9,014	10,723	9,014
<b>Total current assets</b>	<b>244,875</b>	<b>253,383</b>	<b>244,989</b>
Capital assets, net	83,505	86,119	85,959
Future tax assets	19,750	9,807	19,750
Goodwill	39,999	48,233	39,999
Deferred financing fees, net of accumulated amortization of \$683 (July 2, 2005 – \$418)	329	594	406
<b>Total assets</b>	<b>388,458</b>	<b>398,136</b>	<b>391,103</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Bank indebtedness	28,758	66,977	12,728
Accounts payable and accrued liabilities	196,642	190,493	208,590
Deferred revenue	9,650	7,823	9,032
Current portion of long-term debt	14,599	13,488	14,300
<b>Total current liabilities</b>	<b>249,649</b>	<b>278,781</b>	<b>244,650</b>
Long-term accrued liabilities	9,739	12,348	12,859
Long-term debt	18,899	26,049	17,938
<b>Total liabilities</b>	<b>278,287</b>	<b>317,178</b>	<b>275,447</b>
<b>Shareholders' equity</b>			
Share capital	194,979	194,024	194,861
Contributed surplus	1,524	902	1,336
Deficit	(86,332)	(113,968)	(80,541)
<b>Total shareholders' equity</b>	<b>110,171</b>	<b>80,958</b>	<b>115,656</b>
<b>Total liabilities and shareholders' equity</b>	<b>388,458</b>	<b>398,136</b>	<b>391,103</b>

**Consolidated Statements of Earnings**  
(Unaudited)

<i>(thousands of dollars, except per share data)</i>	<b>13-week period ended July 1, 2006</b>	13-week period ended July 2, 2005
<b>Revenues</b>	<b>170,351</b>	164,178
Cost of product, purchasing, selling and administration	<b>167,947</b>	164,171
	<b>2,404</b>	7
Amortization of capital assets	<b>7,389</b>	6,810
Amortization of pre-opening store costs	<b>51</b>	-
	<b>7,440</b>	6,810
Loss before the undernoted items	<b>(5,036)</b>	(6,803)
Interest on long-term debt and financing charges	<b>259</b>	347
Interest on bank indebtedness	<b>586</b>	850
Loss before income taxes	<b>(5,881)</b>	(8,000)
Income tax expense	<b>(90)</b>	90
<b>Net loss for the period</b>	<b>(5,791)</b>	(8,090)
<b>Net loss per common share</b>		
Basic	<b>\$ (0.24)</b>	\$ (0.34)
Diluted	<b>\$ (0.24)</b>	\$ (0.34)
Weighted average common shares outstanding	<b>24,231</b>	24,085