Indigo reports strong sales, profits in second quarter

TORONTO – November 2, 2005 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported strong second quarter results with net earnings up $8.9 million to $1.1 million or $0.04 per share. This compares to a net loss of $7.8 million ($0.32 per share) in the second quarter of the previous year.

Revenues this past quarter grew 10.8% or $18.2 million to $186.7 million versus $168.5 million last year. On a comparative basis, superstore sales were up 12.9% to $129.0 million, while small format stores experienced a 4.8% increase to $34.0 million. The Company's Online channel reported a healthy increase of 40.3% to $19.5 million.

The release of Harry Potter and the Half-Blood Prince had a material impact on the quarter. However, even when excluding this title, total comparable store sales posted a 6.9% increase, while Online grew 32.1%.

"Results this quarter show very satisfying momentum," said Heather Reisman, Chief Executive Officer. "Clearly, supply chain improvements, a continued focus on customer service, and in-store merchandising combined to improve performance overall."

On a year to date basis, revenues grew by 8.1% or $26.4 million, to $350.8 million compared with $324.4 million last year. This improvement was achieved notwithstanding the closure of three superstores and one small format store. Comparable store sales increased 9.3% in superstores and 2.9% in small format stores. Net loss was reduced from $18.8 million last year to $7.0 million this year, an improvement of $11.8 million.

The Company also reported a one-time non-cash gain of $2.8 million associated with the closure of one of its large format stores and a related sublet of the property.

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. It 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 and published by Maclean's. 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 October 1, 2005**	As at October 2, 2004 *(Restated[1])*	As at April 2, 2005
ASSETS			
Current			
Cash and cash equivalents	**$ 7,013**	$ 10,743	$ 10,100
Accounts receivable	**6,863**	6,545	9,879
Inventories	**234,201**	239,076	207,643
Income taxes recoverable	**340**	—	455
Prepaid expenses	**4,723**	6,358	4,296
Future tax assets	**10,723**	3,939	10,723
Total current assets	**263,863**	266,661	243,096
Capital assets, net	**83,694**	93,797	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 $496 [Oct 2, 2004 – $187]	**516**	825	672
Total assets	**$ 406,113**	$ 426,419	$ 393,085
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	**$ 67,328**	$ 78,156	$ 52,968
Accounts payable and accrued liabilities	**197,401**	213,336	190,250
Income taxes payable	**—**	812	—
Deferred revenue	**8,057**	8,750	7,631
Current portion of long-term debt	**13,657**	13,183	13,488
Total current liabilities	**286,443**	314,237	264,337
Accrued benefit obligations	**—**	391	376
Long-term accrued liabilities	**11,665**	14,344	12,998
Long-term debt	**25,699**	39,259	26,506
Total liabilities	**323,807**	368,231	304,217
Shareholders' equity			
Share capital	**194,245**	193,926	193,974
Contributed surplus	**948**	607	772
Deficit	**(112,887)**	(136,345)	(105,878)
Total shareholders' equity	**82,306**	58,188	88,868
Total liabilities and shareholders' equity	**$ 406,113**	$ 426,419	$ 393,085

[1] See Note 3 to the consolidated financial statements in the Company’s fiscal 2005 annual report for details.

CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(thousands of dollars, except per share data)

	13-week period ended October 1, 2005	13-week period ended October 2, 2004 *(Restated[1])*	**26-week period ended October 1, 2005**	26-week period ended October 2, 2004 *(Restated[1])*
Revenues	**$ 186,657**	$ 168,462	**$ 350,835**	$ 324,409
Cost of goods sold, selling and administration	**180,241**	168,180	**344,412**	326,229
	6,416	282	**6,423**	(1,820)
Amortization of capital assets	**6,849**	6,692	**13,659**	13,765
Recovery of restructuring costs	**(2,759)**	—	**(2,759)**	—
Interest on long-term debt and financing charges	**350**	430	**697**	866
Interest on bank indebtedness	**805**	903	**1,655**	2,114
Earnings (loss) before income taxes	**1,171**	(7,743)	**(6,829)**	(18,565)
Income tax expense	**90**	50	**180**	200
Net earnings (loss) for the period	**$ 1,081**	$ (7,793)	**$ (7,009)**	$ (18,765)
Basic net earnings (loss) per common share	**$0.04**	($0.32)	**($0.29)**	($0.78)
Diluted net earnings (loss) per common share	**$0.04**	($0.32)	**($0.29)**	($0.78)
Weighted average common shares outstanding	**24,121**	24,072	**24,103**	24,062

[1] See Note 3 to the consolidated financial statements in the Company's fiscal 2005 annual report for details.