

Great Results for Indigo

Strong growth fuels 16% jump in profits

TORONTO - February 2, 2006 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, posted record earnings for its third quarter. The Company reported net earnings of \$39.8 million, a 16% jump over the same period last year, moving earnings \$0.22 per share to \$1.65.

Indigo experienced strong sales growth in all its channels. In particular, comparative store sales were excellent with superstores growing 11.7% to \$199.2 million, while small format sales saw an increase of 5.5% to \$64.6 million. Total revenues increased by \$22.9 million or 8% to \$309.5 million from \$286.6 million in the same quarter in 2004.

"This holiday season was particularly important for us. It confirmed that we are benefiting, on an ongoing basis, from the investments we have made over the last three years in all areas of the business. The SAP inventory management system, the new point-of-sale systems, the Indigo irewards™ Loyalty Program and the increased focus on customer service, merchandising and leadership development are all bearing fruit. Perhaps most important, the culture of continuous improvement and customer service suggests much opportunity remains." said Heather Reisman, Chief Executive Officer, Indigo Books & Music Inc.

On the online front, chapters.indigo.ca achieved sales of \$24.3 million, an increase of 14.7% over the same period last year. "We know from recent *comScore* data that this performance and the related customer conversion ratio outpaced the competition." commented Jonathan Ehrlich, Executive Vice President, chapters.indigo.ca. The holiday season also generated strong Gift card sales increases for Indigo over an already healthy base. The revenue from Giftcards will not be recorded until cards are redeemed.

Late in the third quarter, Indigo opened two new superstores (in Ottawa and Windsor, Ontario), the first large format stores to open since Indigo merged with Chapters Inc. in 2001. The Company closed two underperforming superstores in the second quarter as part of its continuous effort to optimize its real estate portfolio.

The year-to-date numbers also draw a positive picture with revenues up 8.1% to \$660.4 million from \$611.0 million at the same point last year. Same store sales were up 10.4% in superstores and 4.2% in small format stores. Net earnings jumped to \$32.8 million or \$1.36 per share, an improvement of 110% or \$17.2 million (\$0.71 per share) over the same period the year prior, largely driven by both higher revenues and improved operating efficiency.

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. To learn more about Indigo, please visit the About Our Company section of chapters.indigo.ca.

For further information please contact:

Sorya Ingrid Gaulin

Vice-President, Public Relations

T: 416-646-8965

sgaulin@indigo.ca

CONSOLIDATED BALANCE SHEETS (Unaudited)

<i>(thousands of dollars)</i>	As at December 31, 2005	As at January 1, 2005 (Restated ¹)	As at April 2, 2005
ASSETS			
Current			
Cash and cash equivalents	\$ 57,824	\$ 26,597	\$ 10,100
Accounts receivable	12,283	12,414	9,879
Inventories	231,532	240,242	207,643
Income taxes receivable	246	153	455
Prepaid expenses	3,524	4,529	4,296
Future tax assets	10,723	3,939	10,723
Total current assets	316,132	287,874	243,096
Capital assets, net	86,747	91,687	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 \$567 [January 1, 2005 – \$264; April 2, 2005 – \$340]	445	748	672
Total assets	461,364	445,445	\$ 393,085
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	\$ —	\$ —	\$ 52,968
Accounts payable and accrued liabilities	287,946	290,680	190,250
Deferred revenue	8,713	7,684	7,631
Current portion of long-term debt	14,278	13,183	13,488
Total current liabilities	310,937	311,547	264,337
Accrued benefit obligations	—	696	376
Long-term accrued liabilities	11,066	13,683	12,998
Long-term debt	16,707	26,918	26,506
Total liabilities	338,710	352,844	304,217
Shareholders' equity			
Share capital	194,667	193,926	193,974
Contributed surplus	1,113	688	772
Deficit	(73,126)	(102,013)	(105,878)
Total shareholders' equity	122,654	92,601	88,868
Total liabilities and shareholders' equity	\$ 461,364	\$ 445,445	\$ 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)

	13-week period ended December 31, 2005	13-week period ended January 1, 2005 (Restated ¹)	39-week period ended December 31, 2005	39-week period ended January 1, 2005 (Restated ¹)
<i>(thousands of dollars, except per share data)</i>				
Revenues	\$ 309,518	\$ 286,585	\$ 660,353	\$ 610,994
Cost of goods sold, selling and administration	261,219	243,859	605,631	570,088
	48,299	42,726	54,722	40,906
Amortization	7,254	6,969	20,913	20,734
Recovery of restructuring costs	—	—	(2,759)	—
Interest on long-term debt and financing charges	365	388	1,062	1,254
Interest on bank indebtedness	829	987	2,484	3,101
Earnings before income taxes	39,851	34,382	33,022	15,817
Income tax expense	90	50	270	250
Net earnings for the period	\$ 39,761	\$ 34,332	\$ 32,752	\$ 15,567
Basic net earnings per common share	\$1.65	\$1.43	\$1.36	\$0.65
Diluted net earnings per common share	\$1.61	\$1.42	\$1.33	\$0.65

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