

Indigo Doubles Net Income

Year-end results fueled by 8% growth

TORONTO - May 18, 2006 -- [Indigo Books & Music Inc.](#) (TSX: IDG), Canada's largest book retailer, more than doubled its net income for the fiscal year ended April 1st, 2006. Indigo's profits jumped to \$25.3 million from \$11.7 million a year ago. Earnings per share also more than doubled, to \$1.05 from \$0.49.

This earnings growth came from a combination of strong sales in all its channels and continued improvements in operating efficiency. Revenues rose 7.9%, to \$849.6 million from \$787.5 million. Comparative store sales posted a double digit increase of 10.2% in Chapters and Indigo stores while the Company's small format, Coles, saw a 4.3% jump. This revenue growth in comparative stores well exceeded North American industry trends.

The Company's online channel chapters.indigo.ca experienced its strongest year to date, recording revenues of \$79.5 million, an increase of 22.8% over the year prior.

Indigo's continued efforts at improving operating efficiencies resulted in a 28.2% improvement in operating earnings (EBITDA), mainly driven by lower cost of goods sold as a result of the consolidation of shipping from its distribution centre in Toronto. EBITDA rose to \$56.6 million from \$44.2 million. Commenting on Indigo's gains, Chief Executive Officer Heather Reisman stated: "It is very satisfying to report on these results. Employees from across the Company have remained focused and have worked hard over the last few years. We are pleased to see these efforts really beginning to pay dividends both financially and in terms of customer commitment."

The strong sales momentum the Company reported in the third quarter carried over into the following quarter ending April 1st, 2006. Fourth quarter sales were up 7.2%. Comparative superstore sales for the last quarter increased 9.8% and small format sales grew 4.5%.

In the course of the fiscal year, Indigo received charitable status for its philanthropic program, the [Indigo Love of Reading Fund](#), which gives grants totaling \$1.5 million annually to high-needs schools across Canada to support early literacy and learning initiatives. To date, the Indigo Love of Reading Fund has committed over \$3.1 million to twenty-one well-deserving schools who will each receive grants of \$150,000 over a three year period.

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

<i>(thousands of dollars)</i>	As at April 1, 2006	As at April 2, 2005
ASSETS		
Current		
Cash and cash equivalents	5,983	10,100
Accounts receivable	5,937	9,879
Inventories	214,598	207,643
Income taxes recoverable	156	455
Prepaid expenses	9,301	4,296
Future tax assets	9,014	10,723
Total current assets	244,989	243,096
Capital assets, net	85,959	91,277
Future tax assets	19,750	9,807
Goodwill	39,999	48,233
Deferred financing fees, net of accumulated amortization of \$606 (April 2, 2005 – \$340)	406	672
	391,103	393,085
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	12,728	52,968
Accounts payable and accrued liabilities	208,590	190,250
Deferred revenue	9,032	7,631
Current portion of long-term debt	14,300	13,488
Total current liabilities	244,650	264,337
Accrued benefit obligations	—	376
Long-term accrued liabilities	12,859	12,998
Long-term debt	17,938	26,506
Total liabilities	275,447	304,217
Shareholders' equity		
Share capital	194,861	193,974
Contributed surplus	1,336	772
Deficit	(80,541)	(105,878)
Total shareholders' equity	115,656	88,868
	391,103	393,085

CONSOLIDATED STATEMENTS OF EARNINGS

	52-week period ended April 1, 2006	52-week period ended April 2, 2005
<i>(thousands of dollars, except per share data)</i>		
Revenues	849,616	787,527
Cost of product, purchasing, selling and administration	792,971	743,327
	56,645	44,200
Amortization of capital assets	29,085	27,000
Amortization of pre-opening store costs	68	—
	29,153	27,000
Earnings before the undernoted items	27,492	17,200
Recovery of restructuring costs	(2,122)	(923)
Interest on long-term debt and financing charges	1,229	1,598
Interest on bank indebtedness	2,688	4,211
	25,697	12,314
Earnings before income taxes	25,697	12,314
Income tax expense	360	612
Net earnings for the period	25,337	11,702
Net earnings per common share		
Basic	\$1.05	\$0.49
Diluted	\$1.02	\$0.48