

Indigo's operating earnings up 21% Strong results despite no Harry Potter magic

TORONTO - November 2, 2006 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, improved its operating earnings or EBITDA (earnings before interest, taxes, depreciation and amortization) by \$1.4 million or 21% in the second quarter ended September 30th, 2006. This period was up against the biggest book release of 2005, *Harry Potter and the Half-Blood Prince*. In spite of that, EBITDA reached \$7.8 million, compared to \$6.4 million recorded during the same period last year.

As expected, the timing of the Harry Potter release negatively impacted revenues in all channels for Indigo in the second quarter. Total sales were \$182.2 million, down 2.4% from \$186.7 million in the same quarter last year. On a comparative basis, sales were down 1.2% in superstores and 3.0% in small format stores. Online revenues were down 9.8% at \$17.5 million against \$19.4 million last year.

The Company recorded a net loss for the second quarter of \$1.0 million (\$0.04 per share) compared to net earnings of \$1.1 million (\$0.04 per share) for the same period last year. Second quarter earnings last year included a one-time, non cash gain of \$2.8 million associated with the closure of one large format store and a related sublet of the property. Year-to-date, net loss has improved \$0.2 million to \$6.8 million compared with \$7.0 million last year.

Commenting on these results, Indigo CEO Heather Reisman stated: "The challenge of the Harry Potter anniversary in this quarter was compounded by a weaker line-up of new releases this summer."

On a year-to-date basis, revenues grew 0.5% or \$1.7 million to \$352.6 million compared to \$350.8 million reported at this time last year.

Pursuant to its growth commitment, Indigo Books & Music Inc. recently introduced a new Toys Store online, as a complement to its 'edutainment' approach to the Kids' business. Launched in early October, the online store features over two thousand items for children 0-12 years of age from such trusted brands as Lego, Playmobil, Cranium and more. The new online offering is supported at retail locations through the online kiosks as well as with a limited selection in the Kids section of key large format stores. Early sales results show the new Toys Store has been enthusiastically adopted by consumers.

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.

For the second year running, the Company qualified as one of Canada's Top 100 Employers in 2006 in a survey run by Mediacorp Canada. To learn more about Indigo, please visit the About Our Company section of chapters.indigo.ca.

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Consolidated Balance Sheets

(Unaudited)

<i>(thousands of dollars)</i>	As at September 30, 2006	As at October 1, 2005	As at April 1, 2006
ASSETS			
Current			
Cash and cash equivalents	6,177	7,013	5,983
Accounts receivable	5,891	6,863	5,937
Inventories	245,740	234,201	214,598
Income taxes recoverable	444	340	156
Prepaid expenses	4,594	4,723	9,301
Future tax assets	9,014	10,723	9,014
Total current assets	271,860	263,863	244,989
Capital assets, net	81,803	83,694	85,959
Future tax assets	19,750	9,807	19,750
Goodwill	39,999	48,233	39,999
Deferred financing charges, net of accumulated amortization of \$761 (October 1, 2005 – \$496; April 1, 2006 – \$606)	251	516	406
Total assets	413,663	406,113	391,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	35,176	67,328	12,728
Accounts payable and accrued liabilities	215,540	197,401	208,590
Deferred revenue	10,392	8,057	9,032
Current portion of long-term debt	27,674	13,657	14,300
Total current liabilities	288,782	286,443	244,650
Long-term accrued liabilities	9,139	11,665	12,859
Long-term debt	5,655	25,699	17,938
Total liabilities	303,576	323,807	275,447
Shareholders' equity			
Share capital	195,775	194,245	194,861
Contributed surplus	1,620	948	1,336
Deficit	(87,308)	(112,887)	(80,541)
Total shareholders' equity	110,087	82,306	115,656
Total liabilities and shareholders' equity	413,663	406,113	391,103

Consolidated Statements of Earnings (Loss)
(Unaudited)

	13-week period ended September 30, 2006	13-week period ended October 1, 2005	26-week period ended September 30, 2006	26-week period ended October 1, 2005
<i>(thousands of dollars, except per share data)</i>				
Revenues	182,205	186,657	352,556	350,835
Cost of product, purchasing, selling and administration	174,444	180,241	342,391	344,412
	7,761	6,416	10,165	6,423
Amortization of capital assets	7,751	6,849	15,140	13,659
Amortization of pre-opening store costs	49	-	100	-
	7,800	6,849	15,240	13,659
Loss before the undernoted items	(39)	(433)	(5,075)	(7,236)
Recovery of restructuring costs	-	(2,759)	-	(2,759)
Interest on long-term debt and financing charges	141	350	400	697
Interest on bank indebtedness	796	805	1,382	1,655
Earnings (loss) before income taxes	(976)	1,171	(6,857)	(6,829)
Income tax expense	-	90	(90)	180
Net earnings (loss) for the period	(976)	1,081	(6,767)	(7,009)
Net earnings (loss) per common share				
Basic	\$ (0.04)	\$0.04	\$ (0.28)	\$ (0.29)
Diluted	\$ (0.04)	\$0.04	\$ (0.28)	\$ (0.29)
Weighted average number of common shares outstanding	24,279	24,121	24,255	24,103