

Happy Holidays for Indigo

Profits and revenues both up after 2006 Christmas season

TORONTO - January 31, 2007 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported strong earnings and revenues for its third quarter ended December 30, 2006. The retailer's profit was up 3% to \$41.0 million for the period including the Christmas shopping season, pushing earnings to \$1.68 per share, up \$0.03 from a year ago. Included in these results was a \$1.6 million write-off of software assets related to the company's online business. Normalizing for this charge, the Company's net earnings would have increased 7.2%. Operating earnings for the quarter grew 6% or almost \$3 million to \$51.2 million.

Indigo grew revenues 3.4% to \$320.5 million, compared to \$309.9 million in the same quarter last year. Comparative store sales for the quarter increased 2.5% to \$206.5 million in superstores while small format stores rose 0.6% to \$62.1 million. The company opened two new superstores late in the quarter.

Commenting on the results, Indigo CEO Heather Reisman said: "We are pleased with our performance given a 6% average decline in the price of US published books driven by the strong Canadian Dollar. Not only have we have been able to grow our top line well above the North American industry average, but we've done so without the benefit of strong blockbuster titles this past quarter, compared to last year."

The Company's online sales rose 17.7% to \$28.6 million, continuing the track record of double digit growth since the inception of the channel.

On a year-to-date basis, net earnings increased to \$34.2 million, up 4% from last year's \$32.8 million. On a per share basis, earnings were \$1.41 compared to \$1.36 the year prior. Revenues were up 1.7% to \$673.1 million from \$661.7 million while same store sales grew 1.9% in superstores and 0.6% in small format stores.

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.

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Consolidated Balance Sheets (Unaudited)

<i>(thousands of dollars)</i>	As at December 30, 2006	As at December 31, 2005	As at April 1, 2006
ASSETS			
Current			
Cash and cash equivalents	76,655	57,824	5,983
Accounts receivable	13,054	12,283	5,937
Inventories	248,596	231,532	214,598
Income taxes recoverable	444	246	156
Prepaid expenses	4,229	3,524	9,301
Future tax assets	9,014	10,723	9,014
Total current assets	351,992	316,132	244,989
Capital assets, net	80,570	86,747	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 \$834 (December 31, 2005 – \$567; April 1, 2006 – \$606)	178	445	406
Total assets	492,489	461,364	391,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	-	-	12,728
Accounts payable and accrued liabilities	301,493	287,946	208,590
Deferred revenue	10,014	8,713	9,032
Current portion of long-term debt	15,551	14,278	14,300
Total current liabilities	327,058	310,937	244,650
Long-term accrued liabilities	8,667	11,066	12,859
Long-term debt	5,135	16,707	17,938
Total liabilities	340,860	338,710	275,447
Shareholders' equity			
Share capital	196,201	194,667	194,861
Contributed surplus	1,759	1,113	1,336
Deficit	(46,331)	(73,126)	(80,541)
Total shareholders' equity	151,629	122,654	115,656
Total liabilities and shareholders' equity	492,489	461,364	391,103

Consolidated Statements of Earnings (Unaudited)

	13-week period ended December 30, 2006	13-week period ended December 31, 2005	39-week period ended December 30, 2006	39-week period ended December 31, 2005
<i>(thousands of dollars, except per share data)</i>				
Revenues	320,491	309,868	673,147	661,703
Cost of sales, operations, selling and administration	269,287	261,569	611,778	606,981
	51,204	48,299	61,369	54,722
Amortization of capital assets	7,843	7,254	22,983	20,913
Capital assets write-off	1,639	-	1,639	-
Amortization of pre-opening store costs	51	-	151	-
	9,533	7,254	24,773	20,913
Earnings before the undernoted items	41,671	41,045	36,596	33,809
Recovery of restructuring costs	-	-	-	(2,759)
Interest on long-term debt and financing charges	437	365	837	1,062
Interest on bank indebtedness	257	829	1,639	2,484
Earnings before income taxes	40,977	39,851	34,120	33,022
Income tax expense (recovery)	-	90	(90)	270
Net earnings for the period	40,977	39,761	34,210	32,752
Net earnings per common share				
Basic	\$ 1.68	\$ 1.65	\$ 1.41	\$ 1.36
Diluted	\$ 1.62	\$ 1.61	\$ 1.36	\$ 1.33