

## Indigo Earnings Up 18%

### Strong Fourth Quarter Revenue Growth Caps Record Year

**TORONTO - May 22, 2007** -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, ended its fiscal year March 31<sup>st</sup> 2007 with record numbers, reporting net earnings up 18.4% over the prior year. Net earnings increased \$4.7 million to \$30.0 million. Strong fourth quarter revenue growth, improved operating margins and lower interest costs are cited as the key factors behind this improvement.

Total consolidated revenues for Indigo increased \$23.2 million to \$875 million. The Company noted that this growth was achieved despite two challenging factors: this fiscal was compared to a "Harry Potter" year in 2005, and the average price of US published books slipped by 6% as a result of the strong Canadian dollar against its American counterpart. The Company's EBITDA improved from \$56.6 million (6.6% of revenue) in fiscal 2006 to \$65.7 million (7.5% of revenue) in fiscal 2007.

Commenting on these results, Indigo CEO Heather Reisman said: "This is a significant achievement considering the meaningful decrease in book prices and the absence of any strong hits during the important holiday season. This year's results reflect the continued growth and development of our business and our brands. As we look to the future, we do so with an excellent management team, outstanding employees, a very strong balance sheet, and a passion for our business and for working together."

On a comparative basis, superstores and small format stores were both up with revenue increases of 2.5% and 2.2% respectively. When excluding sales of Harry Potter in 2005, the increase jumps to 3.1% and 3.0% respectively. Sales from Indigo's online channel grew 9.1% to \$86.7 million, from \$79.5 million last year. Excluding sales of Harry Potter in 2005, online growth was 14.4%.

In the fourth quarter, the Company posted strong total revenues of \$201.9 million, up \$11.8 million or 6.2% over the same quarter last year. Comparable superstore sales increased 4.4%, small format sales were up 8.5% while chapters.indigo.ca was up 18.5%. Net loss for the fourth quarter improved \$3.2 million to \$4.2 million compared to a loss of \$7.4 million in the same quarter the year prior.

"I'm also very pleased to report that this year, we again made a grant of \$1.5 million from the Indigo Love of Reading Fund to ten new high-needs elementary schools in Canada" said Reisman. To date, the Indigo Love of Reading Fund has committed \$4.5 million to 30 schools for the purchase of books and learning materials.

### 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](http://chapters.indigo.ca), an online retailer of books, music, movies and more. It is a publicly traded company listed on the Toronto Stock Exchange under the stock symbol IDG.

In 2005 and 2006, 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](http://chapters.indigo.ca)

In 2004, Indigo also founded the Indigo Love of Reading Fund, a registered charity whose mission is to provide new books and creative learning materials to high-needs elementary schools, enhancing the literacy and self-esteem of students in Canada. Visit [chapters.indigo.ca/loveofreading](http://chapters.indigo.ca/loveofreading) for more information.

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## Consolidated Balance Sheets

<i>(thousands of dollars)</i>	As at March 31, 2007	As at April 1, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	13,639	5,983
Accounts receivable	9,848	5,937
Inventories	224,059	214,598
Income taxes recoverable	194	156
Prepaid expenses	4,578	9,301
Future tax assets	9,205	9,014
<b>Total current assets</b>	<b>261,523</b>	<b>244,989</b>
Capital assets, net	76,186	85,959
Future tax assets	32,035	19,750
Goodwill	27,523	39,999
Deferred financing charges, net of accumulated amortization of \$910 (April 1, 2006 – \$606)	102	406
<b>Total assets</b>	<b>397,369</b>	<b>391,103</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Bank indebtedness	-	12,728
Accounts payable and accrued liabilities	206,542	208,590
Deferred revenue	10,621	9,032
Current portion of long-term debt	15,664	14,300
<b>Total current liabilities</b>	<b>232,827</b>	<b>244,650</b>
Long-term accrued liabilities	10,807	12,859
Long-term debt	4,928	17,938
<b>Total liabilities</b>	<b>248,562</b>	<b>275,447</b>
<b>Shareholders' equity</b>		
Share capital	197,592	194,861
Contributed surplus	1,752	1,336
Deficit	(50,537)	(80,541)
<b>Total shareholders' equity</b>	<b>148,807</b>	<b>115,656</b>
<b>Total liabilities and shareholders' equity</b>	<b>397,369</b>	<b>391,103</b>

## Consolidated Statements of Earnings

<i>(thousands of dollars, except per share data)</i>	52-week period ended March 31, 2007	52-week period ended April 1, 2006
<b>Revenues</b>	<b>875,043</b>	851,822
Cost of sales, operations, selling and administration	<b>809,386</b>	795,177
	<b>65,657</b>	56,645
Amortization of capital assets	<b>30,670</b>	29,085
Capital assets write-off	<b>2,372</b>	-
Amortization of pre-opening store costs	<b>205</b>	68
	<b>33,247</b>	29,153
Earnings before the undernoted items	<b>32,410</b>	27,492
Recovery of restructuring costs	<b>(315)</b>	(2,122)
Interest on long-term debt and financing charges	<b>1,307</b>	1,229
Interest on bank indebtedness	<b>1,504</b>	2,688
Earnings before income taxes	<b>29,914</b>	25,697
Income tax expense (recovery)	<b>(90)</b>	360
<b>Net earnings for the period</b>	<b>30,004</b>	25,337
<b>Net earnings per common share</b>		
Basic	<b>\$1.23</b>	\$1.05
Diluted	<b>\$1.19</b>	\$1.02