

## Indigo Revenue Up 8.5%

### Strong Growth Slashes First Quarter Loss in Half

TORONTO - August 1, 2007 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported strong first quarter growth across all channels. Total revenues for the quarter increased 8.5% to \$184.9 million. On a comparative basis, Indigo and Chapters superstores and Coles small format stores both had significant revenue increases of 6.1% and 6.0%, respectively. Sales from Indigo's online channel, [chapters.indigo.ca](http://chapters.indigo.ca), grew 19.6% (to \$19.5 million). The Company noted that sales from the recently released Harry Potter novel were not included in these results since they occurred in the Company's second quarter.

The Company's operating earnings, or EBITDA, more than doubled to \$5.2 million for the first quarter. First quarter net loss was reduced to \$2.8 from a loss of \$5.8 million in the same quarter last year.

Commenting on these results, Indigo CEO Heather Reisman said: "these are very satisfying results, reflecting our continuing strong focus on customer programs, effective merchandising, and strong inventory management."

Ms. Reisman also noted that she was thrilled that Chapters and Indigo were rated as the number one and number three retailers in Canada by the Kubas Major Market Retail Report for 2007. "It's a terrific feeling knowing that our customers believe so strongly in us and that our stores and staff continue to deliver the ultimate retail experience for Canadians," she said.

#### 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.

### **Non-GAAP Financial Measures**

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. In order to provide additional insight into the business, the Company has also provided non-GAAP data, including EBITDA, in the press release above. This measure does not have a standardized meaning prescribed by GAAP, and is therefore specific to Indigo and may not be comparable to similar measures presented by other companies.

EBITDA is a key indicator used by the Company to measure performance against internal targets and prior period results. This measure is commonly used by financial analysts and investors to compare Indigo to other retailers. EBITDA is defined as earnings before interest, taxes, depreciation and amortization.

### **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.

For further information please contact:

**Lisa Huie**

Manager Public Relations

T: 416-646-8926

[lhuie@indigo.ca](mailto:lhuie@indigo.ca)

## Consolidated Balance Sheets (Unaudited)

<i>(thousands of dollars)</i>	As at June 30, 2007	As at July 1, 2006	As at March 31, 2007
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	6,870	6,004	13,639
Accounts receivable	7,417	5,372	9,848
Inventories	214,313	216,816	224,059
Income taxes recoverable	194	246	194
Prepaid expenses	5,085	7,423	4,578
Future tax assets	9,205	9,014	9,205
<b>Total current assets</b>	<b>243,084</b>	<b>244,875</b>	<b>261,523</b>
Capital assets, net	72,303	83,505	76,186
Future tax assets	32,035	19,750	32,035
Goodwill	27,523	39,999	27,523
<b>Total assets</b>	<b>374,945</b>	<b>388,129</b>	<b>397,267</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Bank indebtedness	12,520	28,758	-
Accounts payable and accrued liabilities	187,207	196,642	206,542
Deferred revenue	12,431	9,650	10,621
Derivative liabilities	1,400	-	-
Current portion of long-term debt	2,661	14,270	15,562
<b>Total current liabilities</b>	<b>216,219</b>	<b>249,320</b>	<b>232,725</b>
Long-term accrued liabilities	9,009	9,739	10,807
Long-term debt	4,861	18,899	4,928
<b>Total liabilities</b>	<b>230,089</b>	<b>277,958</b>	<b>248,460</b>
<b>Shareholders' equity</b>			
Share capital	197,622	194,979	197,592
Contributed surplus	1,994	1,524	1,752
Deficit	(53,396)	(86,332)	(50,537)
Accumulated other comprehensive loss	(1,364)	-	-
<b>Total shareholders' equity</b>	<b>144,856</b>	<b>110,171</b>	<b>148,807</b>
<b>Total liabilities and shareholders' equity</b>	<b>374,945</b>	<b>388,129</b>	<b>397,267</b>

**Consolidated Statements of Earnings**  
**(Unaudited)**

<i>(thousands of dollars, except per share data)</i>	<b>13-week period ended June 30, 2007</b>	13-week period ended July 1, 2006
<b>Revenues</b>	<b>184,917</b>	170,351
Cost of sales, operations, selling and administration	<b>179,764</b>	167,947
	<b>5,153</b>	2,404
Amortization of capital assets	<b>7,610</b>	7,389
Amortization of pre-opening store costs	<b>54</b>	51
	<b>7,664</b>	7,440
Loss before the undernoted items	<b>(2,511)</b>	(5,036)
Interest on long-term debt and financing charges	<b>247</b>	259
Interest on bank indebtedness	<b>82</b>	586
Loss before income taxes	<b>(2,840)</b>	(5,881)
Income tax recovery	<b>-</b>	(90)
<b>Net loss for the period</b>	<b>(2,840)</b>	(5,791)
<b>Net loss per common share</b>		
Basic	<b>\$ (0.12)</b>	\$ (0.24)
Diluted	<b>\$ (0.12)</b>	\$ (0.24)
<b>Weighted average number of common shares outstanding</b>	<b>24,648</b>	24,231