

Indigo Releases Second Quarter Results

TORONTO - October 31, 2007 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported strong second quarter growth across all channels. Total revenue for the quarter increased 14.8% to \$209.2 million. On a comparative basis, Indigo and Chapters superstores posted 10.2% growth, while Coles small format stores were up 10.7%. Sales from Indigo's online channel, chapters.indigo.ca, grew 50.3% to \$26.3 million.

The Company's net earnings for the second quarter increased to \$3.3 million, up \$4.3 million from a loss of \$1.0 million in the same quarter last year. Operating earnings, or EBITDA, rose 43.6% to \$11.2 million.

Commenting on the results, Indigo CEO Heather Reisman said: "Canadian booklovers continue to show us their passion for books, and our results also point to their appreciation for our other product lines such as lifestyle gifts and kids toys." Ms. Reisman also noted: "The release of Harry Potter and the Deathly Hallows was clearly a major event for us in the quarter, but even without this blockbuster book our results were strong".

Excluding Harry Potter, revenue for the quarter was up 7.1% in Indigo and Chapters superstores and 6.4% in Coles small format stores, while sales from Indigo's online channel grew 14.9%.

In a separate announcement, the company confirmed the opening of 8 new superstores over the next 18 months, including sites in Vancouver, Calgary, Saskatoon, Winnipeg, Stoney Creek, Milton, Mississauga and St John. As well, the company plans to significantly expand its toy business across large format stores over the next 18 months due to the positive reception for its edutainment offering to date.

Recently Indigo produced *The Entrepreneurs*, a series of interviews with some of Canada's leading entrepreneurs which will soon be available both online and in-store; released *Writing on the Wall*, a documentary about the literacy crises in Canada; and introduced their new online *Community*, chapters.indigo.ca/community, an innovative platform that combines social networking functionality with booklover inspired content tools in a bold effort to

transfer the social atmosphere and knowledgeable environment of the Indigo in-store experience into the online channel.

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 operating earnings or 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.

Operating earnings or 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, 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.

In 2004, Indigo also founded the Indigo Love of Reading Foundation, 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 for more information.

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Consolidated Statements of Earnings (Unaudited)

	13-week period ended September 29, 2007	13-week period ended September 30, 2006	26-week period ended September 29, 2007	26-week period ended September 30, 2006
<i>(thousands of dollars, except per share data)</i>				
Revenues	209,173	182,305	394,090	352,656
Cost of sales, operations, selling and administration	197,961	174,544	377,725	342,491
	11,212	7,761	16,365	10,165
Amortization of capital assets	7,476	7,751	15,086	15,140
Amortization of pre-opening store costs	54	49	108	100
	7,530	7,800	15,194	15,240
Earnings (loss) before the undernoted items	3,682	(39)	1,171	(5,075)
Interest on long-term debt and financing charges	203	141	450	400
Interest on bank indebtedness	140	796	222	1,382
Earnings (loss) before income taxes	3,339	(976)	499	(6,857)
Income tax recovery	-	-	-	(90)
Net earnings (loss) for the period	3,339	(976)	499	(6,767)
Net earnings (loss) per common share				
Basic	\$ 0.14	\$ (0.04)	\$ 0.02	\$ (0.28)
Diluted	\$ 0.13	\$ (0.04)	\$ 0.02	\$ (0.28)
Weighted average number of common shares outstanding	24,692	24,279	24,670	24,255

Consolidated Balance Sheets (Unaudited)

<i>(thousands of dollars)</i>	As at September 29, 2007	As at September 30, 2006	As at March 31, 2007
ASSETS			
Current			
Cash and cash equivalents	9,324	6,177	13,639
Accounts receivable	8,508	5,891	9,848
Inventories	236,948	245,740	224,059
Income taxes recoverable	194	444	194
Prepaid expenses	4,280	4,594	4,578
Future tax assets	9,205	9,014	9,205
Total current assets	268,459	271,860	261,523
Capital assets, net	69,556	81,803	76,186
Future tax assets	32,035	19,750	32,035
Goodwill	27,523	39,999	27,523
Total assets	397,573	413,412	397,267
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	15,794	35,176	-
Accounts payable and accrued liabilities	205,538	215,540	206,542
Deferred revenue	10,876	10,392	10,621
Derivative liabilities	2,584	-	-
Current portion of long-term debt	2,732	27,423	15,562
Total current liabilities	237,524	288,531	232,725
Long-term accrued liabilities	7,745	9,139	10,807
Long-term debt	4,625	5,655	4,928
Total liabilities	249,894	303,325	248,460
Shareholders' equity			
Share capital	198,181	195,775	197,592
Contributed surplus	2,139	1,620	1,752
Deficit	(50,057)	(87,308)	(50,537)
Accumulated other comprehensive loss	(2,584)	-	-
Total shareholders' equity	147,679	110,087	148,807
Total liabilities and shareholders' equity	397,573	413,412	397,267