

Indigo Reports Gains in Third Quarter Revenue and Earnings

TORONTO, ONT - January 29, 2008 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book retailer, reported gains in net revenue and net earnings for its third quarter ending December 29th, 2007.

Total revenue for the quarter increased 0.7% to \$322.6 million. On a comparable store basis, Indigo and Chapters superstores posted 0.6% growth, while Coles small format stores were down 1.7%. Sales from Indigo's online channel, chapters.indigo.ca, grew 8.0% to \$30.9 million.

The Company's net earnings for the third quarter increased to \$49.2 million, up \$8.2 million from the same quarter last year. Included in this year's results was a \$7.6 million non-cash tax recovery. Pre-tax earnings rose \$0.6 million to \$41.6 million.

On a year-to-date basis, total revenue has increased 6.5% to \$716.6 million while net income is up 45.2% to \$49.7 million.

Commenting on the results, Indigo CEO Heather Reisman said: "We were satisfied with the results given the headwinds we faced on a number of fronts: an unprecedented rise in the Canadian dollar, no blockbuster hits, and a particularly tough season for weather. We, along with our publishers, offered significant discounts on books to bring Canadian prices more in line with those in the U.S. We were encouraged to see consumers respond by buying more books, but lower prices clearly slowed our top line revenue growth in the quarter. We believe that in the mid to long term, lower prices are good for our customers and will ultimately drive higher sales."

Other events in the third quarter included positive consumer response to Indigo's Online Community launched in October 2007 at <http://www.chapters.indigo.ca/community>. The platform combines social networking functionality with booklover inspired content and tools. With over 75,000 members to date this site is fast becoming the social network haven for Canadian booklovers.

Additionally, the well-received in-store speaking series "*The Entrepreneurs*," is now available online at <http://www.chapters.indigo.ca/entrepreneur>. Produced in partnership with TD Canada Trust, the series features Canada's leading entrepreneurs including Peter Munk, Robert Lantos and Gerry Schwartz, providing customers from coast to coast insight from Canada's most respected business leaders.

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 comparative store sales growth, 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.

Comparative store sales growth 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. Comparable store sales are defined as sales generated by stores that have been open for more than 12 months.

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 Balance Sheets
(Unaudited)

<i>(thousands of dollars)</i>	As at December 29, 2007	As at December 30, 2006	As at March 31, 2007
ASSETS			
Current			
Cash and cash equivalents	107,236	76,655	13,639
Accounts receivable	16,922	13,054	9,848
Inventories	228,670	248,596	224,059
Income taxes recoverable	21	444	194
Prepaid expenses	3,811	4,229	4,578
Future tax assets	7,347	9,014	9,205
Total current assets	364,007	351,992	261,523
Capital assets, net	67,779	80,570	76,186
Future tax assets	42,955	19,750	32,035
Goodwill	27,523	39,999	27,523
Total assets	502,264	492,311	397,267
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	-	-	-
Accounts payable and accrued liabilities	276,900	301,493	206,542
Deferred revenue	10,624	10,014	10,621
Derivative liabilities	1,498	-	-
Current portion of long-term debt	2,525	15,373	15,562
Total current liabilities	291,547	326,880	232,725
Long-term accrued liabilities	7,304	8,667	10,807
Long-term debt	4,144	5,135	4,928
Total liabilities	302,995	340,682	248,460
Shareholders' equity			
Share capital	198,861	196,201	197,592
Contributed surplus	2,251	1,759	1,752
Deficit	(878)	(46,331)	(50,537)
Accumulated other comprehensive loss	(965)	-	-
Total shareholders' equity	199,269	151,629	148,807
Total liabilities and shareholders' equity	502,264	492,311	397,267

Consolidated Statements of Earnings
(Unaudited)

	13-week period ended December 29, 2007	13-week period ended December 30, 2006	39-week period ended December 29, 2007	39-week period ended December 30, 2006
<i>(thousands of dollars, except per share data)</i>				
Revenues	322,552	320,491	716,642	673,147
Cost of sales, operations, selling and administration	273,555	269,287	651,280	611,778
	48,997	51,204	65,362	61,369
Amortization of capital assets	7,340	7,843	22,426	22,983
Capital assets write-off	-	1,639	-	1,639
Amortization of pre-opening store costs	36	51	144	151
	7,376	9,533	22,570	24,773
Earnings before the undernoted items	41,621	41,671	42,792	36,596
Interest on long-term debt and financing charges	133	437	583	837
Interest (income) on bank indebtedness	(137)	257	85	1,639
Earnings before income taxes	41,625	40,977	42,124	34,120
Income tax recovery	(7,554)	-	(7,554)	(90)
Net earnings for the period	49,179	40,977	49,678	34,210
Net earnings per common share				
Basic	\$1.98	\$1.68	\$2.01	\$1.41
Diluted	\$1.94	\$1.62	\$1.96	\$1.36
Weighted average number of common shares outstanding	24,794	24,403	24,712	24,304

Consolidated Statements of Cash Flows (Unaudited)

<i>(thousands of dollars)</i>	13-week period ended December 29, 2007	13-week period ended December 30, 2006	39-week period ended December 29, 2007	39-week period ended December 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings for the period	49,179	40,977	49,678	34,210
Add (deduct) items not affecting cash				
Amortization	7,376	7,894	22,570	23,134
Stock-based compensation	210	142	512	420
Directors' compensation	81	68	257	219
Future income taxes	(8,554)	-	(8,554)	-
Loss on disposal of capital assets	96	187	96	208
Write-off of capital assets	-	1,639	-	1,639
Amortization and write-off of deferred financing charges	38	73	214	228
Other	25	-	6	-
Net change in non-cash working capital balances related to operations				
Accounts receivable	(8,414)	(7,163)	(7,074)	(7,117)
Inventories	8,278	(2,856)	(4,611)	(33,998)
Prepaid expenses	433	314	623	4,921
Income taxes recoverable	173	-	173	(288)
Deferred revenue	(252)	(378)	3	982
Accounts payable and accrued liabilities	70,921	85,482	66,855	88,712
Cash flows from operating activities	119,590	126,379	120,748	113,270
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of capital assets	(5,626)	(8,330)	(12,728)	(16,667)
Proceeds from sale of capital assets	-	8	-	67
Cash flows used in investing activities	(5,626)	(8,322)	(12,728)	(16,600)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in bank indebtedness	(15,794)	(35,176)	-	(12,728)
Repayment of long-term debt	(759)	(12,758)	(15,422)	(14,394)
Proceeds from share issuances	501	355	999	1,124
Cash flows used in financing activities	(16,052)	(47,579)	(14,423)	(25,998)
Net increase in cash and cash equivalents during the period	97,912	70,478	93,597	70,672
Cash and cash equivalents, beginning of period	9,324	6,177	13,639	5,983
Cash and cash equivalents, end of period	107,236	76,655	107,236	76,655