

Indigo Reports Q3 Revenue up 3.0% *Online Revenues at Record Level, Significant Growth in General Merchandise*

TORONTO, ON – February 4, 2014 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported 3.0% growth in revenue for its third quarter ended December 28, 2013. Revenue for the quarter was \$332.4 million, up \$9.8 million from the previous year driven by double-digit growth in its lifestyle, paper, and toy businesses and new revenue from its recently launched Indigotech™ business. Additionally, the Company experienced growth in its print business due to a strong line-up of hit titles. The revenue growth was achieved despite the Company operating eight fewer small format stores and one less superstore compared to the same time last year.

On a comparable store basis, Indigo and Chapters superstores posted a 2.6% increase in revenue, while Coles and Indigospirit small format store revenues were up 0.5%. Online sales increased 19.3% to a record \$41.5 million, up from \$34.8 million for the same period last year.

Commenting on the results, CEO Heather Reisman said, "It is very satisfying to see the Company achieve this positive growth – particularly given the impact of unusually bad weather this holiday season. Clearly the investments we are making to transform Indigo are resonating with our customers."

The Company reported net earnings of \$8.5 million for the 13-week period ended December 28, 2013 (\$0.33 net earnings per common share), compared to net earnings of \$22.0 million (\$0.86 net earnings per common share) in the same period last year. Net earnings declined as a result of both higher tax expense as the Company recorded a valuation allowance against the deferred tax assets and intentional investments made to advance the Company's transformational agenda. Specifically, the Company invested in expanding merchandising space for growing categories within its existing superstores, in online marketing to drive customer acquisition, in improving its online capabilities and launching additional Indigotech™ locations. Excluding the valuation allowance, net earnings for the third quarter of fiscal 2014 would have been \$20.9 million (\$0.82 net earnings per common share), compared to net earnings of \$22.0 million (\$0.86 net earnings per common share) in the same period last year.

By the end of Q3, the Company had opened its 37th Indigotech™ shop. These shops within shops feature design-inspired lifestyle electronics and accessories.

In the quarter, the Company also launched its Indigo Mobile App for both Android and iOS platforms which simplifies the Indigo shopping experience for quicker and easier purchasing, at home, in-store, or on the go. The Indigo Mobile App, in addition to effortless mobile shopping, gives customers access to their plum loyalty and rewards membership, great product information, personalized recommendations and offers that understand, anticipate and cater to their shopping needs.

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-IFRS Financial Measures

The Company prepares its unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards and International Accounting Standards 34, "Interim Financial Reporting." In order to provide additional insight into the business, the Company has also provided non-IFRS data, including comparative store sales growth, in the press release above. This measure does not have a standardized meaning prescribed by IFRS 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 on a 52-week basis.

About Indigo Books & Music Inc.

Indigo is a publicly traded Canadian company listed on the Toronto Stock Exchange (IDG). As the largest book, gift and specialty toy retailer in Canada, Indigo operates in all provinces under different banners including Indigo Books & Music; Indigo Books, Gifts, Kids; Indigospirit; Chapters; The World's Biggest Bookstore; and Coles. The online channel, indigo.ca, offers a one-stop online shop with a robust selection of books, toys, home décor, stationery and gifts.

In 2004, Indigo founded the Indigo Love of Reading Foundation, a registered charity that provides new books and education materials to high-needs Canadian elementary schools, to address the literacy crisis in Canada. To date the Foundation, as well as its "Adopt a School" program, have contributed more than \$15.6 million — equating to over 1.4 million books — to high-needs elementary schools across Canada. Visit loveofreading.org for more information.

To learn more about Indigo, please visit the Our Company section at indigo.ca.

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Consolidated Balance Sheets (Unaudited)

(thousands of Canadian dollars)	As at December 28, 2013	As at December 29, 2012	As at March 30, 2013
ASSETS			
Current			
Cash and cash equivalents	265,292	310,076	210,562
Accounts receivable	25,846	26,968	7,126
Inventories	247,780	239,836	216,533
Prepaid expenses	5,075	4,144	4,153
Total current assets	543,993	581,024	438,374
Property, plant and equipment	62,396	60,619	58,903
Intangible assets	22,039	22,112	22,164
Equity investment	1,609	2,080	968
Deferred tax assets	38,821	46,310	48,731
Total assets	668,858	712,145	569,140
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	259,559	267,177	150,177
Unredeemed gift card liability	64,256	63,639	47,169
Provisions	1,524	221	2,168
Deferred revenue	13,185	13,882	13,733
Income taxes payable	38	111	11
Current portion of long-term debt	727	811	773
Total current liabilities	339,289	345,841	214,031
Long-term accrued liabilities	3,562	4,153	4,004
Long-term provisions	78	285	78
Long-term debt	275	856	705
Total liabilities	343,204	351,135	218,818
Equity			
Share capital	203,812	203,733	203,805
Contributed surplus	8,422	7,858	8,128
Retained earnings	113,420	149,419	138,389
Total equity	325,654	361,010	350,322
Total liabilities and equity	668,858	712,145	569,140

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)
(Unaudited)

(thousands of Canadian dollars, except per share data)	13-week period ended December 28, 2013	13-week period ended December 29, 2012	39-week period ended December 28, 2013	39-week period ended December 29, 2012
Revenues	332,393	322,620	683,335	694,809
Cost of sales	(191,433)	(185,500)	(387,657)	(392,184)
Gross profit	140,960	137,120	295,678	302,625
Operating, selling and administrative expenses	(115,389)	(110,032)	(305,073)	(290,768)
Operating profit (loss)	25,571	27,088	(9,395)	11,857
Interest on long-term debt and financing charges	(25)	(17)	(82)	(69)
Interest income on cash and cash equivalents	582	685	1,766	1,844
Share of earnings from equity investment	1,609	1,955	1,000	1,226
Earnings (loss) before income taxes	27,737	29,711	(6,711)	14,858
Income tax recovery (expense)	(19,240)	(7,676)	(9,910)	(2,323)
Net earnings (loss) and comprehensive earnings (loss) for the period	8,497	22,035	(16,621)	12,535
Net earnings (loss) per common share				
Basic	\$0.33	\$0.86	\$(0.65)	\$0.49
Diluted	\$0.33	\$0.86	\$(0.65)	\$0.49

Consolidated Statements of Cash Flows (Unaudited)

(thousands of Canadian dollars)	13-week period ended December 28, 2013	13-week period ended December 29, 2012	39-week period ended December 28, 2013	39-week period ended December 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss) for the period	8,497	22,035	(16,621)	12,535
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	4,101	4,277	12,214	13,325
Amortization of intangible assets	2,724	2,617	8,198	7,554
Net impairment of capital assets	505	-	505	250
Loss on disposal of capital assets	100	-	113	44
Stock-based compensation	228	210	925	569
Directors' compensation	100	101	344	330
Deferred tax assets	19,240	7,676	9,910	2,323
Other	(442)	(195)	(430)	(440)
Net change in non-cash working capital balances	79,640	91,363	73,947	90,068
Interest on long-term debt and financing charges	25	17	82	69
Interest income on cash and cash equivalents	(582)	(685)	(1,766)	(1,844)
Income taxes received (paid)	27	-	26	45
Distributions from equity investment	-	-	359	107
Share of earnings from equity investment	(1,609)	(1,955)	(1,000)	(1,226)
Cash flows from operating activities	112,554	125,461	86,806	123,709
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(9,030)	(3,415)	(16,188)	(6,869)
Addition of intangible assets	(2,508)	(2,262)	(8,073)	(6,876)
Interest received	582	682	1,823	1,900
Cash flows used in investing activities	(10,956)	(4,995)	(22,438)	(11,845)
CASH FLOWS FROM FINANCING ACTIVITIES				
Notes payable	-	190	-	190
Repayment of long-term debt	(189)	(280)	(620)	(964)
Interest paid	-	(41)	(70)	(127)
Proceeds from share issuances	-	50	7	280
Dividends paid	(2,783)	(2,780)	(8,348)	(8,336)
Repurchase of options	-	-	(975)	-
Cash flows used in financing activities	(2,972)	(2,861)	(10,006)	(8,957)
Effect of foreign currency exchange rate changes on cash and cash equivalents	406	224	368	451
Net increase in cash and cash equivalents during the period	99,032	117,829	54,730	103,358
Cash and cash equivalents, beginning of period	166,260	192,247	210,562	206,718
Cash and cash equivalents, end of period	265,292	310,076	265,292	310,076