Indigo Full Year Results Show Solid Margin Improvement

Improved Net Earnings from Continuing Operations

TORONTO, ON – May 28, 2013 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported full year gross profit $2.7 million higher than last year due to a 2.2% improvement in margin rate. The improvement in margin rate was a result of a shift in product mix to higher margin products, lower sales discounts, fewer markdowns and shipping more product through the Company's distribution center.

Net earnings from continued operations attributable to shareholders of the Company for the year were $4.3 million, compared to a net loss of $27.8 million last year. The improvement in earnings was primarily due to improved margins and no goodwill impairment charges being recognized in fiscal 2013.

Revenue for the fiscal year ended March 30, 2013 was $893 million compared to $934 million last year, a decline of 4.4%. The decline was primarily due to lower physical book and eReader sales. Additionally, the Company operated nine fewer small format stores.

The revenue decline was partially offset by double-digit growth in lifestyle, paper and toy sales and an increase in revenue from the Kobo revenue-sharing agreement due to the growth in digital reading.

On a comparable store basis, Indigo and Chapters superstore revenue decreased 4.6%, while Coles and IndigoSpirit small format store revenue decreased 2.4%. Online sales grew 1%.

Revenue for the fourth quarter was $185 million, down $11 million from the previous year against the blockbuster Hunger Games Trilogy in the fourth quarter last year. Net loss from continuing operations attributable to shareholders of the Company for the quarter was $8.2 million compared to a net loss of $10.7 million last year. The increase in earnings was due to a 2.4% improvement in margin rate and lower operating and selling and administrative expenses due to the Company's on-going focus on its Galileo productivity improvement initiative.

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 the Indigo "Adopt A School" program, have contributed $13.5 million—equating to close to two 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

(thousands of Canadian dollars)	**As at March 30, 2013**	As at March 31, 2012
ASSETS		
Current		
Cash and cash equivalents	**211,701**	207,601
Accounts receivable	**7,180**	12,627
Inventories	**216,916**	229,706
Prepaid expenses	**4,235**	3,695
Total current assets	**440,032**	453,629
Property, plant and equipment	**59,319**	67,464
Intangible assets	**22,164**	22,810
Deferred tax assets	**48,731**	48,633
Total assets	**570,246**	592,536
LIABILITIES AND EQUITY		
Current		
Accounts payable and accrued liabilities	**151,283**	174,201
Unredeemed gift card liability	**47,169**	42,711
Provisions	**2,168**	232
Deferred revenue	**13,733**	11,234
Income taxes payable	**11**	65
Current portion of long-term debt	**773**	1,060
Total current liabilities	**215,137**	229,503
Long-term accrued liabilities	**4,004**	5,800
Long-term provisions	**78**	460
Long-term debt	**705**	1,141
Total liabilities	**219,924**	236,904
Equity		
Share capital	**203,805**	203,373
Contributed surplus	**8,128**	7,039
Retained earnings	**138,389**	145,220
Total equity	**350,322**	355,632
Total liabilities and equity	**570,246**	592,536

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

(thousands of Canadian dollars, except per share data)	**13-week period ended March 30, 2013**	13-week period ended March 31, 2012	**52-week period ended March 30, 2013**	52-week period ended March 31, 2012
Revenues	**184,814**	195,879	**892,458**	933,990
Cost of sales	**(102,968)**	(113,889)	**(500,681)**	(544,924)
Gross profit	**81,846**	81,990	**391,777**	389,066
Operating, selling and administrative expenses	**(93,252)**	(97,710)	**(390,080)**	(418,701)
Operating earnings (loss)	**(11,406)**	(15,720)	**1,697**	(29,635)
Interest on long-term debt and financing charges	**(27)**	(36)	**(116)**	(153)
Interest income on cash and cash equivalents	**765**	420	**2,609**	460
Earnings (loss) before income taxes	**(10,668)**	(15,336)	**4,190**	(29,328)
Income tax recovery (expense)				
Current	**-**	(71)	**-**	(71)
Deferred	**2,421**	4,681	**98**	1,572
Earnings (loss) and comprehensive earnings (loss) for the period from continuing operations	**(8,247)**	(10,726)	**4,288**	(27,827)
Earnings and comprehensive earnings for the period from discontinued operations (net of tax)	**-**	135,695	**-**	94,016
Net earnings (loss) and comprehensive earnings (loss) for the period	**(8,247)**	124,969	**4,288**	66,189
Net earnings (loss) and comprehensive earnings (loss) attributable to:				
Shareholders of Indigo	**(8,247)**	131,527	**4,288**	92,664
Non-controlling interest	**-**	(6,558)	**-**	(26,475)
Net earnings (loss) per common share from continuing operations				
Basic	**$(0.33)**	$(0.43)	**$0.17**	$(1.10)
Diluted	**$(0.33)**	$(0.43)	**$0.17**	$(1.10)
Net earnings per common share from discontinued operations				
Basic	**$ -**	$5.64	**$ -**	$4.78
Diluted	**$ -**	$5.58	**$ -**	$4.73
Net earnings (loss) per common share				
Basic	**$(0.33)**	$5.21	**$0.17**	$3.68
Diluted	**$(0.33)**	$5.16	**$0.17**	$3.64

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	**13-week period ended March 30, 2013**	13-week period ended March 31, 2012	**52-week period ended March 30, 2013**	52-week period ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss) from continuing operations for the period	**(8,247)**	(10,726)	**4,288**	(27,827)
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	**4,363**	4,590	**17,838**	18,416
Amortization of intangible assets	**2,691**	1,977	**10,245**	8,243
Net impairment of capital assets	**-**	-	**250**	3,956
Impairment of goodwill	**-**	-	**-**	25,416
Loss on disposal of capital assets	**21**	59	**65**	124
Stock-based compensation	**174**	175	**743**	1,041
Directors' compensation	**116**	116	**446**	500
Deferred tax assets	**(2,421)**	(4,681)	**(98)**	(1,572)
Other	**(25)**	(248)	**(443)**	(205)
Net change in non-cash working capital balances related to continuing operations	**(91,394)**	(68,695)	**1,408**	16,925
Interest on long-term debt and financing charges	**27**	36	**116**	153
Interest income on cash and cash equivalents	**(765)**	(420)	**(2,609)**	(460)
Income taxes received (paid)	**(13)**	(325)	**32**	(325)
Operating cash flows of discontinued operations	**-**	11,809	**-**	(56,878)
Cash flows from (used in) operating activities	**(95,473)**	(66,333)	**32,281**	(12,493)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of non-capital tax losses	**-**	-	**-**	(10,559)
Purchase of property, plant and equipment	**(2,572)**	(1,611)	**(9,521)**	(12,141)
Addition of intangible assets	**(2,745)**	(2,513)	**(9,621)**	(8,553)
Interest received	**796**	276	**2,676**	526
Cash disposal resulting from sale of subsidiary	**-**	(33,033)	**-**	(33,033)
Proceeds from sale of subsidiary	**-**	148,941	**-**	148,941
Investing cash flows of discontinued operations	**-**	(948)	**-**	(8,884)
Cash flows from (used in) investing activities	**(4,521)**	111,112	**(16,466)**	76,297
CASH FLOWS FROM FINANCING ACTIVITIES				
Notes payable	**-**	(5,280)	**-**	-
Repayment of long-term debt	**(236)**	(320)	**(1,200)**	(1,367)
Interest paid	**(33)**	(104)	**(160)**	(245)
Proceeds from share issuances	**52**	7	**332**	585
Dividends paid	**(2,783)**	(2,775)	**(11,119)**	(11,090)
Purchase of shares in subsidiary	**-**	-	**-**	(3,009)
Financing cash flows of discontinued operations	**-**	(263)	**-**	74,819
Cash flows from (used in) financing activities	**(3,000)**	(8,735)	**(12,147)**	59,693
Effect of foreign currency exchange rate changes on cash and cash equivalents	**3**	511	**432**	443
Net increase (decrease) in cash and cash equivalents during the period	**(102,991)**	36,555	**4,100**	123,940
Cash and cash equivalents, beginning of period	**314,692**	171,046	**207,601**	83,661
Cash and cash equivalents, end of period	**211,701**	207,601	**211,701**	207,601