Indigo Reports Q2 Results

Early Success in Transformation Strategy Drives Change in Dividend Policy

TORONTO, ON – November 5, 2013 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported revenue of $179.4 million for its second quarter ending September 28, 2013. Revenue declined 3.3% from the previous year due primarily to the phenomenal success last year of the Fifty Shades and Hunger Games trilogies, the much slowed but continuing growth of eReading, and the Company operating nine fewer stores. Excluding revenue from the hit trilogies, revenue increased 0.3% from the same quarter last year as the Company continued to experience double-digit growth in lifestyle, paper, and toy sales.

On a comparable store basis, Indigo and Chapters superstores posted a 2.8% decrease in revenue, while Coles and IndigoSpirit small format stores were down 8.2%. Excluding the blockbuster titles, comparable store sales increased 0.1% in superstores and 0.6% in small format stores. Online sales increased 3.3% to $18.7 million from $18.1 million for the same period last year.

Just after the close of the quarter, the Company launched the Indigo Mobile App with extremely positive feedback from both the tech press and from users. The Indigo App was also featured in the Apple® App Store® as one of the best new apps.

In addition, just following the close of the quarter, Indigo finalized an agreement with American Girl to open American Girl "shop in shops" in selected Indigo retail locations.

By the end of Q2, the Company had opened its first 12 !ndigotech™ shops. These shop within shops feature design-inspired lifestyle electronics and accessories. The Company will open 20 more !ndigotech™ shops across Canada before the holiday season.

The Company recognized a net loss of $10.1 million for the 13-week period ended September 28, 2013 ($0.39 net loss per common share), compared to a net loss of $4.0 million ($0.16 net loss per common share) in the same period last year. The increased loss was partially the result of lower book sales but more significantly the intentionally higher operating, selling and administrative expenses, compared to last year, associated with its transformational initiatives. Specifically, Indigo invested additional funds in marketing to engage Canadian customers with its new categories, in advancing its digital capabilities, in creating merchandising within its existing superstores to highlight the expanded product mix, and in improving several aspects of its general merchandise capabilities.

The Board of Directors today approved a quarterly dividend of 11 cents per common share to be paid on December 3, 2013, to all shareholders of record as of November 19, 2013.

Based on early success with new initiatives, the Company anticipates entering a period of major store renovations, increased investment in its proprietary product development capability, and increased digital investment to fully bring to life its booklovers lifestyle store concept. In light of these planned increased expenditures to support the Company's strategic development and growth, the Board of Directors today approved the suspension of the Company's quarterly dividend beyond December 3, 2013. The current dividend program was initiated at a time of significant earnings and very much prior to the advent and impact of the digital reading revolution.

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 September 28, 2013**	As at September 29, 2012	As at March 30, 2012
ASSETS			
Current			
Cash and cash equivalents	**166,260**	192,247	210,562
Accounts receivable	**12,620**	14,274	7,126
Inventories	**241,939**	242,696	216,533
Prepaid expenses	**6,641**	4,653	4,153
Total current assets	**427,460**	453,870	438,374
Property, plant and equipment	**58,072**	61,481	58,903
Intangible assets	**22,255**	22,467	22,164
Equity investment	**-**	125	968
Deferred tax assets	**58,061**	53,986	48,731
Total assets	**565,848**	591,929	569,140
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**184,595**	192,671	150,177
Unredeemed gift card liability	**42,016**	37,912	47,169
Provisions	**1,726**	175	2,168
Deferred revenue	**13,462**	12,882	13,733
Income taxes payable	**10**	111	11
Current portion of long-term debt	**752**	900	773
Total current liabilities	**242,561**	244,651	214,031
Long-term accrued liabilities	**3,147**	4,448	4,004
Long-term provisions	**78**	391	78
Long-term debt	**450**	1,045	705
Total liabilities	**246,236**	250,535	218,818
Equity			
Share capital	**203,812**	203,660	203,805
Contributed surplus	**8,094**	7,570	8,128
Retained earnings	**107,706**	130,164	138,389
Total equity	**319,612**	341,394	350,322
Total liabilities and equity	**565,848**	591,929	569,140

Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

(thousands of Canadian dollars, except per share data)	**13-week period ended September 28, 2013**	13-week period ended September 29, 2012	**26-week period ended September 28, 2013**	26-week period ended September 29, 2012
Revenues	**179,417**	185,563	**350,942**	372,189
Cost of sales	**(96,935)**	(100,356)	**(196,224)**	(206,684)
Gross profit	**82,482**	85,207	**154,718**	165,505
Operating, selling and administrative expenses	**(96,375)**	(90,719)	**(189,684)**	(180,736)
Operating loss	**(13,893)**	(5,512)	**(34,966)**	(15,231)
Interest on long-term debt and financing charges	**(30)**	(21)	**(57)**	(52)
Interest income on cash and cash equivalents	**600**	578	**1,184**	1,159
Share of loss from equity investment	**(238)**	(369)	**(609)**	(729)
Loss before income taxes	**(13,561)**	(5,324)	**(34,448)**	(14,853)
Income tax recovery	**3,491**	1,311	**9,330**	5,353
Net loss and comprehensive loss for the period	**(10,070)**	(4,013)	**(25,118)**	(9,500)
Net loss per common share				
Basic	**$ (0.39)**	$ (0.16)	**$ (0.98)**	$(0.38)
Diluted	**$ (0.39)**	$ (0.16)	**$ (0.98)**	$(0.38)

Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	**13-week period ended September 28, 2013**	13-week period ended September 29, 2012	**26-week period ended September 28, 2013**	26-week period ended September 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	**(10,070)**	(4,013)	**(25,118)**	(9,500)
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	**4,074**	4,329	**8,113**	9,048
Amortization of intangible assets	**2,761**	2,515	**5,474**	4,937
Net impairment of capital assets	**-**	-	**-**	250
Loss on disposal of capital assets	**3**	-	**13**	44
Stock-based compensation	**194**	200	**697**	359
Directors' compensation	**111**	96	**244**	229
Deferred tax assets	**(3,491)**	(1,311)	**(9,330)**	(5,353)
Other	**587**	509	**12**	(245)
Net change in non-cash working capital balances	**(6,669)**	9,863	**(5,693)**	(1,295)
Interest on long-term debt and financing charges	**30**	21	**57**	52
Interest income on cash and cash equivalents	**(600)**	(578)	**(1,184)**	(1,159)
Income taxes received (paid)	**(1)**	41	**(1)**	45
Distributions from equity investment	**359**	-	**359**	107
Share of loss from equity investment	**238**	369	**609**	729
Cash flows from (used in) operating activities	**(12,474)**	12,041	**(25,748)**	(1,752)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(5,868)**	(2,673)	**(7,158)**	(3,454)
Addition of intangible assets	**(3,733)**	(2,784)	**(5,565)**	(4,614)
Interest received	**601**	611	**1,241**	1,218
Cash flows used in investing activities	**(9,000)**	(4,846)	**(11,482)**	(6,850)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of long-term debt	**(234)**	(338)	**(431)**	(684)
Interest paid	**(34)**	(38)	**(70)**	(86)
Proceeds from share issuances	**7**	142	**7**	230
Dividends paid	**(2,782)**	(2,780)	**(5,565)**	(5,556)
Repurchase of options	**-**	-	**(975)**	-
Cash flows used in financing activities	**(3,043)**	(3,014)	**(7,034)**	(6,096)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(569)**	(522)	**(38)**	227
Net increase (decrease) in cash and cash equivalents during the period	**(25,086)**	3,659	**(44,302)**	(14,471)
Cash and cash equivalents, beginning of period	**191,346**	188,588	**210,562**	206,718
Cash and cash equivalents, end of period	**166,260**	192,247	**166,260**	192,247