Indigo Reports Full Year Results

Accelerates Transformation

TORONTO, ON – May 27, 2014 -- Indigo Books & Music Inc. (TSX: IDG), Canada's largest book, gift and specialty toy retailer reported revenue of $868 million for its fiscal year ended March 29, 2014. Total revenue decreased 1.3% compared to the previous year which was extraordinarily impacted by the Fifty Shades and Hunger Game trilogies. Lower eReader sales and the Company operating five fewer stores also had some impact on revenue. Excluding the impact of the Fifty Shades and Hunger Game trilogies, revenue increased 1.3%.

On a comparable store basis, Indigo and Chapters superstore revenue decreased 0.9%, while Coles and Indigospirit small format store revenue decreased 5.0%. Excluding the blockbuster titles, comparable store sales increased 1.3% in superstores and 0.4% in small format stores.

Commenting on the results, CEO Heather Reisman said, "In an industry which is world-wide experiencing meaningful sales declines, we are pleased with the customer response to all our transformation efforts, with the sales performance, and with the potential for further growth and profitability moving forward."

The Company reported a net loss for the year of $31 million compared to net earnings of $4.3 million last year. The loss was the result of significant operating investments in the Company to accelerate its transformation, somewhat lower margin rates due to an increasingly competitive retail environment, higher non-cash tax expense as the Company recorded a valuation allowance against its tax assets, higher severance costs due to a reorganization of its workforce during the fourth quarter, and higher non-cash store impairment charges.

Revenue for the fourth quarter was $184 million, up $0.3 million from the same quarter last year. Net loss for the quarter was $14 million compared to a net loss of $8.2 million last year. The increased loss was due to lower margin rates, non-cash store impairment charges, severance costs, and ongoing investments in the Company's transformational strategy.

Further commenting on the results, CEO Heather Reisman said, "We feel strongly that the investments made to accelerate our transformation are absolutely right to ensure Indigo remains a strong, vibrant and valued brand for customers, employees and shareholders. Based on performance so far this quarter, we are certainly seeing the traction we hoped for with our investments."

Subsequent to the quarter, Indigo launched the first two American Girl® Specialty Boutiques outside of the United States to the delight of thousands of Canadian fans. The launch of the 1800 square foot boutiques located at Indigo's Yorkdale Mall location, and Chapters on Robson Street in Vancouver serve to reinforce Indigo's commitment to the importance of creative play for kids in partnership with one of the most adored and iconic brands in the world. Response has been outstanding.

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 consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). 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; 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.

Indigo founded the Indigo Love of Reading Foundation in 2004 to address the underfunding of public elementary school libraries. Every year the Indigo Love of Reading Foundation grants $1.5 million to 20 high-needs elementary schools so they can transform their libraries with the purchase of new books and education resources. To date, the Indigo Love of Reading Foundation's Literacy Fund has committed $15.5 million to more than 170 schools nationally. The Foundation's annual grassroots Adopt a School program unites employees, customer, schools and their communities to raise funds to put even more books into the hands of children. Over the past five years we have raised over $2.0 million so 400,000 children have a book to call their own.

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 29, 2014**	As at March 30, 2013	As at April 1, 2012
ASSETS			
Current			
Cash and cash equivalents	**157,578**	210,562	206,718
Accounts receivable	**5,582**	7,126	12,810
Inventories	**218,979**	216,533	229,199
Prepaid expenses	**5,184**	4,153	3,692
Total current assets	**387,323**	438,374	452,419
Property, plant and equipment	**58,476**	58,903	66,928
Intangible assets	**21,587**	22,164	22,810
Equity investment	**598**	968	961
Deferred tax assets	**44,604**	48,731	48,633
Total assets	**512,588**	569,140	591,751
LIABILITIES AND EQUITY			
Current			
Accounts payable and accrued liabilities	**136,428**	150,177	173,416
Unredeemed gift card liability	**46,827**	47,169	42,711
Provisions	**928**	2,168	232
Deferred revenue	**12,860**	13,733	11,234
Income taxes payable	**-**	11	65
Current portion of long-term debt	**584**	773	1,060
Total current liabilities	**197,627**	214,031	228,718
Long-term accrued liabilities	**2,896**	4,004	5,800
Long-term provisions	**164**	78	460
Long-term debt	**227**	705	1,141
Total liabilities	**200,914**	218,818	236,119
Equity			
Share capital	**203,812**	203,805	203,373
Contributed surplus	**8,820**	8,128	7,039
Retained earnings	**99,042**	138,389	145,220
Total equity	**311,674**	350,322	355,632
Total liabilities and equity	**512,588**	569,140	591,751

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

(thousands of Canadian dollars, except per share data)	**13-week period ended March 29, 2014**	13-week period ended March 30, 2013	**52-week period ended March 29, 2014**	52-week period ended March 29, 2013
Revenues	**184,333**	183,976	**867,668**	878,785
Cost of sales	**(106,298)**	(102,915)	**(493,955)**	(495,099)
Gross profit	**78,035**	81,061	**373,713**	383,686
Operating, selling and administrative expenses	**(98,620)**	(92,551)	**(403,693)**	(383,319)
Operating profit (loss)	**(20,585)**	(11,490)	**(29,980)**	367
Interest on long-term debt and financing charges	**(13)**	(32)	**(95)**	(101)
Interest income on cash and cash equivalents	**611**	765	**2,377**	2,609
Share of earnings (loss) from equity investment	**(211)**	89	**789**	1,315
Earnings (loss) before income taxes	**(20,198)**	(10,668)	**(26,909)**	4,190
Income tax recovery (expense)				
Current	**37**	-	**37**	-
Deferred	**5,783**	2,421	**(4,127)**	98
Net earnings (loss) and comprehensive earnings (loss) for the period	**(14,378)**	(8,247)	**(30,999)**	4,288
Net earnings (loss) per common share				
Basic	**$(0.56)**	$(0.32)	**$(1.21)**	$0.17
Diluted	**$(0.56)**	$(0.32)	**$(1.21)**	$0.17

Consolidated Statements of Cash Flows

(thousands of Canadian dollars)	**13-week period ended March 29, 2014**	13-week period ended March 30, 2013	**52-week period ended March 29, 2014**	52-week period ended March 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss) for the period	**(14,378)**	(8,247)	**(30,999)**	4,288
Add (deduct) items not affecting cash				
Depreciation of property, plant and equipment	**4,144**	4,313	**16,358**	17,638
Amortization of intangible assets	**2,925**	2,691	**11,123**	10,245
Net impairment of capital assets	**2,099**	-	**2,604**	250
Loss on disposal of capital assets	**189**	21	**302**	65
Stock-based compensation	**317**	174	**1,242**	743
Directors' compensation	**81**	116	**425**	446
Deferred tax assets	**(5,783)**	(2,421)	**4,127**	(98)
Other	**224**	(42)	**(206)**	(482)
Net change in non-cash working capital balances	**(93,143)**	(88,979)	**(19,196)**	1,089
Interest on long-term debt and financing charges	**13**	32	**95**	101
Interest income on cash and cash equivalents	**(611)**	(765)	**(2,377)**	(2,609)
Income taxes received (paid)	**-**	(13)	**26**	32
Share of earnings (loss) from equity investment	**211**	(89)	**(789)**	(1,315)
Cash flows from (used in) operating activities	**(103,712)**	(93,209)	**(17,265)**	30,393
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(2,512)**	(2,572)	**(18,700)**	(9,441)
Addition of intangible assets	**(2,473)**	(2,745)	**(10,546)**	(9,621)
Distributions from equity investment	**800**	1,201	**1,159**	1,308
Interest received	**640**	791	**2,463**	2,691
Cash flows used in investing activities	**(3,545)**	(3,325)	**(25,624)**	(15,063)
CASH FLOWS FROM FINANCING ACTIVITIES				
Notes payable	**-**	-	**-**	190
Repayment of long-term debt	**(194)**	(236)	**(814)**	(1,200)
Interest paid	**(40)**	(33)	**(110)**	(160)
Proceeds from share issuances	**-**	52	**7**	332
Dividends paid	**-**	(2,783)	**(8,348)**	(11,119)
Repurchase of options	**-**	-	**(975)**	-
Cash flows used in financing activities	**(234)**	(3,000)	**(10,240)**	(11,957)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(223)**	20	**145**	471
Net increase (decrease) in cash and cash equivalents during the period	**(107,714)**	(99,514)	**(52,984)**	3,844
Cash and cash equivalents, beginning of period	**265,292**	310,076	**210,562**	206,718
Cash and cash equivalents, end of period	**157,578**	210,562	**157,578**	210,562