

CHAPTERS INC
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(in thousands)

	13 WEEKS	13 WEEKS
	July 1, 2000	July 3, 1999
OPERATING ACTIVITIES		
Net earnings for the period	(12,714)	(9,449)
Add (less) items not affecting cash		
Amortization	7,023	5,720
Loss on disposal of capital assets	-	66
Future income taxes	(2,176)	(675)
Non-controlling interest	(3,766)	-
Deferred pension charges	75	75
	<u>(11,558)</u>	<u>(4,263)</u>
Net changes in non-cash working capital related to operations	(9,344)	(51,003)
Cash provided by operating activities	<u>(20,902)</u>	<u>(55,266)</u>
INVESTING ACTIVITIES		
Increase in short term investments	-	-
Purchase of capital assets, net	(6,432)	(12,052)
Cash used in investing activities	<u>(6,432)</u>	<u>(12,052)</u>
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	5,290	(23,086)
Proceeds on share issuance - Chapters Inc.	-	32,085
Proceeds on issuance of long-term debt	-	54,000
Reduction of long-term debt	-	(2,000)
Cash provided by (used in) financing activities	<u>5,290</u>	<u>60,999</u>
Net increase (decrease) in cash during the period	(22,044)	(6,319)
Cash, beginning of period	28,935	6,319
Cash, end of period	<u>6,891</u>	<u>-</u>

CHAPTERS INC
CONDENSED BALANCE SHEET

(UNAUDITED)
(in thousands)

	As at July 1, 2000	As at July 3, 1999*
ASSETS		
Cash	6,891	-
Short term investments	25,000	-
Accounts receivable	13,969	8,474
Inventories	261,912	247,731
Income taxes receivable	6,917	5,516
Prepaid expenses	5,967	5,798
Future income tax assets	925	-
Total current assets	<u>321,581</u>	<u>267,519</u>
Capital assets, net	141,781	112,571
Future income taxes assets	3,967	-
Deferred pension charges	101	600
Goodwill	1,560	1,638
Total Assets	<u>468,990</u>	<u>382,328</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Bank indebtedness	74,502	38,754
Accounts payable and accrued liabilities	170,535	135,904
Deferred revenue	6,259	5,130
Current portion of long-term debt	-	9,125
Total current liabilities	<u>251,296</u>	<u>188,913</u>
Long-term debt	54,000	54,000
Future income tax liabilities	-	1,557
Non-controlling interest	11,235	-
Share capital	132,044	131,373
Retained earnings	20,415	6,485
Total Liabilities and Shareholders' Equity	<u>468,990</u>	<u>382,328</u>

* Certain balances have been reclassified to conform with the current year's presentation.

INVESTOR INFORMATION

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TRANSFER AGENT AND REGISTRAR:

CIBC Mellon Trust Company
Toronto, Montreal, Winnipeg, Calgary, Vancouver.

STOCK LISTING:

The Toronto Stock Exchange
(trading symbol CHP)

INQUIRIES:

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Chapters

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MESSAGE TO SHAREHOLDERS

Over the past quarter, Chapters Inc. continued to improve its productivity and leverage the synergies between its three distinct businesses - Chapters Retail, Chapters Online, and Pegasus Wholesale. For the fourth consecutive year, Chapters was ranked #1 by customers in the recently released annual Major Market Retail Report by Kubas & Associates. In addition, Chapters Online entered into an alliance with Radio Shack Canada and launched a new home-and-garden web site called Villa.ca. The largest 100 publishers, together with many intermediate and smaller publishing houses in Canada now sell to Pegasus on wholesale terms.

Total consolidated revenues for the 13 weeks ended July 1, 2000 rose to \$136.9 million, an 11.9% increase over revenues of \$122.4 million for the same period a year ago. Consolidated net losses were \$12.7 million or (\$1.12) per share, compared with \$9.4 million or (\$0.90) per share in the same quarter last year. The losses consisted of \$3.8 million or (\$0.33) per share loss from the retail business compared to a \$4.3 million or (\$0.41) per share loss for the same quarter in 1999; a \$6.9 million or (\$0.61) per share loss from Chapters Online, compared to a \$3.9 million or (\$0.37) per share loss for the same period last year; and a \$2.0 million or (\$0.18) per share loss from Pegasus Wholesale, compared to a \$1.2 million or (\$0.12) per share loss in the prior year. The weighted average number of shares outstanding during the first quarter rose to 11.4 million, compared to 10.5 million shares outstanding for the same period one year ago as a result of the issuance of 1 million shares during the first quarter in the last fiscal year.

CHAPTERS RETAIL

During the first quarter of the fiscal year, Chapters opened 1 new superstore in Rockland Shopping Centre in Montreal. This brought the total number of superstores to 71, including the World's Biggest Bookstore, compared to 58 stores last year. The company also opened 1 new Coles store in Powell River, British Columbia, and closed 11 stores, bringing the total number of traditional stores at the end of the quarter to 221, compared to 250 at the end of the first quarter last year.

Revenues from Chapters book superstores in the first quarter rose by 14.2% from \$73.0 million to \$83.4 million. The 52 comparable Chapters stores, defined as stores operating for five full quarters prior to the current quarter, had a sales decline of 0.8% in the first quarter.

Traditional bookstore revenues declined from \$42.7 million to \$37.5 million due to the closure of 29 stores since last year, and a comparable sales decline of 5.9%.

Other revenues generated from the sale of the Company's loyalty cards and Campus Bookstores division were \$3.3 million, compared to \$3.0 million during the same period last year.

CHAPTERS ONLINE

Chapters Inc. holds a 69.6% ownership stake in Chapters Online Inc. Revenues from Chapters Online were \$12.7 million for the first quarter, an increase of 246% from sales of \$3.7 million in the same period last year. For the quarter ended July 1, 2000 Chapters share of Chapters Online's loss, increased to \$6.9 million or (\$0.61) per share compared to \$3.9 million or (\$0.37) per share for the same quarter in 1999 when the Company owned 100% of Chapters Online.

During the period, Chapters Online and InterTAN Inc. created an alliance with Radio Shack Canada allowing Chapters.ca to sell a full line of consumer electronics. Chapters Online also launched a new

home-and-garden web site called Villa.ca providing Canadians with a diversity of products through an online medium. Furthermore, the Retail Council of Canada awarded the 'Excellence in Online Retailing Award' to Chapters Online.

PEGASUS WHOLESALE

Chapters Inc. holds an 85% stake (82% on a fully diluted basis) in Pegasus Wholesale, Canada's largest national book wholesaler. For the quarter ended July 1, 2000 Chapters share of Pegasus' loss, net of non-controlling interest was \$2.0 million or (\$0.18) per share, compared to a loss of \$1.2 million or (\$0.12) per share for the same period last year when Chapters owned 100% of Pegasus. Revenues for the period were \$36.7 million, of which \$0.3 million was generated from third parties.

During the quarter, Pegasus received orders from some of Canada's largest library systems and shipped book and related products to several national retailers and independent book stores. In June, the House of Commons Heritage Committee's report affirmed that the existence of Pegasus and its operations do not in any way contravene the laws governing the book industry.

CHANGES IN MANAGEMENT

The Company announced the appointment of Mr. David Hainline, formerly Executive Vice-President, as Executive Vice-President and Chief Operating Officer of Chapters Online. Mr. Hainline, a twenty-year veteran to the retailing industry replaced Mr. Richard Segal who announced his resignation as President of Chapters Online in June, 2000.

In August 2000, the Company announced the appointment of Mr. Harry Yanowitz, currently President of Chapters Inc., as the acting Chief Financial Officer of the Company and Mr. William Hanchar, currently Chief Financial Officer of Pegasus Wholesale Inc., as the acting Vice-President, Finance of the Company. Mr. Yanowitz and Mr. Hanchar, both of whom were executives during the inception of Chapters Inc. replace Ms. Tamara Lawson who announced her resignation as Executive Vice-President, Chief Financial Officer and Secretary of the Company.

ABOUT CHAPTERS INC.

Chapters Inc. is a Canadian company and the largest book retailer in Canada, operating bookstores in all provinces, under the names Chapters, Coles, SmithBooks, LibrerieSmith, The Book Company and World's Biggest Bookstore. Through Chapters Campus Bookstores, the company manages college and university bookstores, including those at McGill University in Montreal and Cambrian College in Sudbury.

Chapters Inc. is the majority owner of Pegasus Wholesale Inc., a national book wholesaler and Chapters Online Inc., an online retailer of books, software, music CDs, videos, and DVDs through Chapters.ca. Chapters Inc. is a publicly traded company, listed on the Toronto Stock Exchange under the stock symbol CHP, and included in the TSE's top 300 companies, as well as in the S&P/TSE Canadian SmallCap Index.

For further information please call:

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Chapters Inc.

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CHAPTERS INC CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)
(in thousands except share data)

	13 WEEKS	13 WEEKS
	July 1, 2000	July 3, 1999
Revenue		
Superstores	83,406	73,027
Traditional bookstores	37,481	42,680
Internet	12,680	3,669
Other	3,313	2,976
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	136,880	122,352
Cost of product, purchasing, selling and administration	149,839	131,678
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	(12,959)	(9,326)
Amortization of capital assets	6,542	4,898
Amortization of pre-opening store costs	347	708
Amortization of goodwill	134	114
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Earnings (losses) before the undernoted items	(19,982)	(15,046)
Interest on long-term debt	978	555
Interest on current debt	742	1,143
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Earnings (losses) before income tax expense and non-controlling interest	(21,702)	(16,744)
Income tax expense (recovery)	(5,222)	(7,295)
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Net earnings (losses) before non-controlling interest	(16,480)	(9,449)
Non-controlling interest	(3,766)	-
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Net earnings (losses)	(12,714)	(9,449)
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Net earnings (losses) per common share - Basic	\$ (1.12)	\$ (0.90)
Weighted average common shares outstanding	11,358	10,501
Summary of basic earnings (losses) per common share:		
Retail	\$ (0.33)	\$ (0.41)
Chapters Online	\$ (0.61)	\$ (0.37)
Pegasus	\$ (0.18)	\$ (0.12)
Other	\$ -	\$ -
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	\$ (1.12)	\$ (0.90)