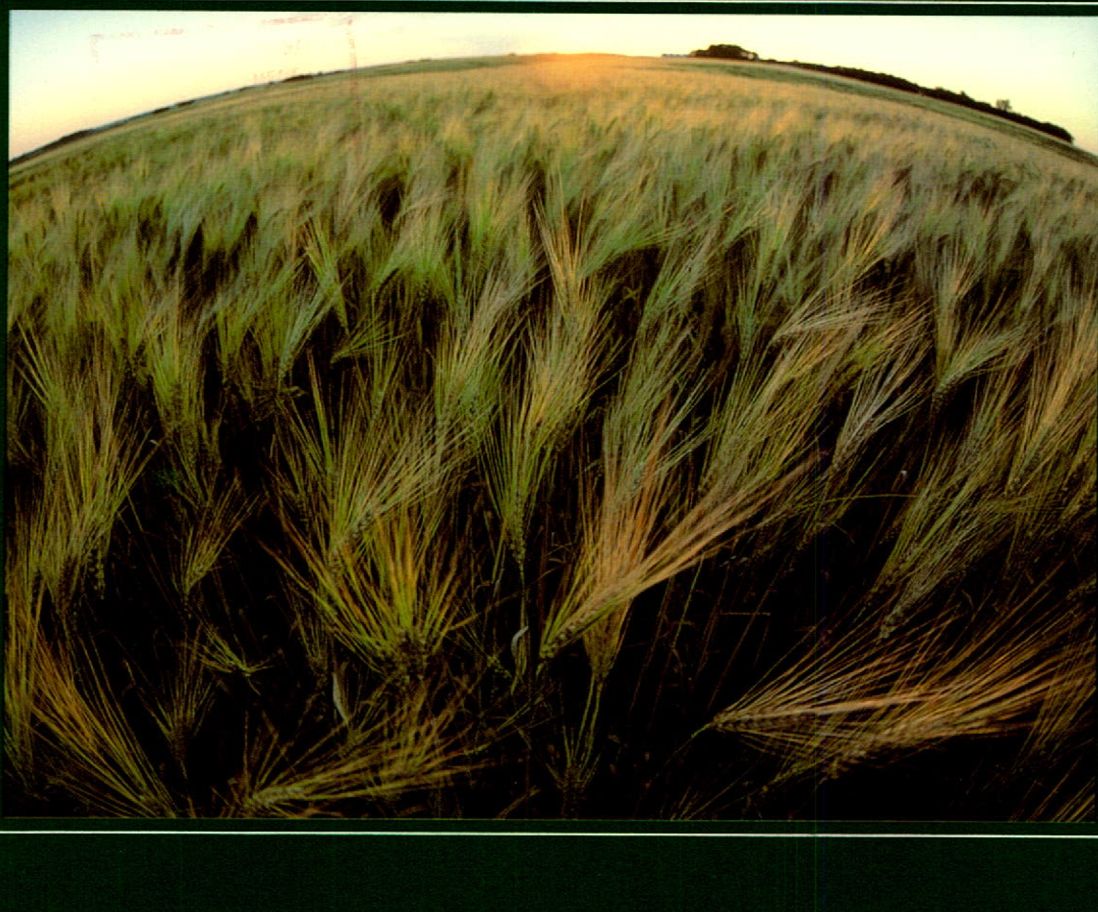
Coopérative Fédérée de Québec

Annual Report
1982



1922-1982
60
YEARS

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Ce rapport est disponible en français en vous adressant au trésorier,
Coopérative Fédérée de Québec
Case postale 500 — Station Youville
Montréal
H2P 2W2

Coopérative Fédérée de Québec

Annual Report 1982

Highlights

(in thousands of $)	**1982**	1981
Sales	**$ 1 219 168**	$ 1 075 873
Salaries and employee benefits	**63 894**	55 731
Financing costs	**18 502**	14 725
Savings before patronage refunds and income taxes	**5 629**	9 739
Net savings	**4 208**	3 446
Accounts receivable and inventories	**178 405**	204 564
Current assets	**184 977**	208 402
Additions to fixed assets	**11 576**	9 642
Working capital	**47 233**	50 166
Fixed assets, at cost	**86 149**	76 646
Fixed assets, net	**45 099**	40 091
Total assets	**249 050**	265 143
Long-term debt	**40 447**	38 379
Members' equity	**66 374**	65 123

Today, as yesterday...

The graphic design of our Annual Report paints a vivid picture of the growth of our agriculture and the instruments that have helped it grow. It also shows the deep roots that the farm co-operative movement has implanted in the agri-food industry over the years, and how today's members, just as all those in past decades, constantly strive to be in the vanguard of progress.

President's Report

Once again, we are pleased to bring you our report on Coopérative Fédérée operations for the 1981-82 financial year along with a few comments on the various events or situations which particularly marked the farm and cooperative scene during these twelve months.

Our comments on the operations will be brief, since our Chief Executive Officer will give you a detailed report on the results achieved by each division of the Federation. However we do wish to point out that, despite higher business volume, total savings were strongly affected by depressed economic conditions.

This is disappointing, certainly, but it shows that we are by no means in a "seven fat kine" period of plenty, and that business in almost every activity are reporting reduced profitability, if not deficits. As we read the financial pages, we are reminded every day that we are undergoing a serious recession. Viewed in that light, while we did not enjoy the success of previous years, we should be modestly satisfied with the results achieved by Coopérative Fédérée during its 1981-82 financial year.

The fact that Coopérative Fédérée has become a powerful economic lever is due above all to those who felt the need over the years to join together in enterprises that are really their own, and in which they can truly have a say. The concerted action of the farm cooperative movement is an important factor in the economy in general and in our farm economy in particular, and we all must be proud of it. We must in no way be afraid to proclaim loudly that the farm cooperative movement has contributed greatly to the growth of Quebec agriculture during recent decades. There is no reason why it will not continue to do so in the future if we keep on putting our shoulders to the wheel.

After celebrating our Federation's first 60 years of existence, we must now turn all our attention to the future. Above all, it is essential that we carry on the work of those who preceded us, always aware that continuity is a factor that must never be lacking in a movement such as ours. And this continuity will be assured only to the extent that we succeed in preparing a competent and motivated team on both the administrative and management levels. This task is our responsibility, and we must do it well.

Our 60th anniversary

In 1982, our Federation celebrated the 60th Anniversary of its founding. Coopérative Fédérée officially came into being on December 29, 1922, with the merger of Coopérative Centrale des Agriculteurs de Québec (formerly known as Coopérative des Fromagers de Québec), Coopérative des Producteurs de Semences de Québec, and Comptoir Coopératif de Montréal. During these last six decades, think of the distance travelled, the obstacles overcome, the many examples of solidarity and loyalty on the part of our member cooperatives, their members and personnel.

The Year in Review

Farming, as we well know, holds more imponderables for those who work at it than you will find in any other occupation. The truth of this was proved once again during 1982. Just a brief analysis of the year will show how few of our agricultural sectors produced satisfactory results.

First, the hog production. It will be remembered that this production was in a real crisis at the beginning of 1982. Several producers were incapable of weathering the crisis, while a number of others teetered on the brink of bankruptcy. Hog producers had already been operating at a loss for more than two years.

Fortunately, market conditions rapidly began to improve later in the year, permitting the almost unhoped-for salvaging of a great number of hog farms. Debts were so large in certain cases that hog prices would have to remain at a very high level for a prolonged period in order to clear away the deficits accumulated during recent years.

Poultry producers were not affected in the same way, and they have had a reasonable year, under the circumstances. However, the situation was totally different at the processing level, as our Chief Executive Officer notes in his report.

Beef producers, for their part, had to continue to work below their costs of production, which in no way encourages growth. Whithout the income stabilization insurance, how many of them would have been able to stay in production? Yet it is certainly not with this income stabilization insurance alone that we can validly promote the advantages of this production to our farmers.

And what can we say about grain production, when those who made a start at it with such great optimism in recent years have since become so desillusioned? For them, 1982 was simply a disastrous year. Newcomers, or those who decided to make additional investments in this production, certainly found themselves no richer at the end of 1982. The financial difficulties in which they find themselves mired will probably force many of them to give up the fight unless there is an appreciable increase in prices very shortly.

We sincerely hope that the situation in this sector will improve rapidly. Otherwise, all the efforts made in recent years to achieve an ever greater level of self-sufficiency would be negated by the impossibility of obtaining reasonable returns for several years in a row.

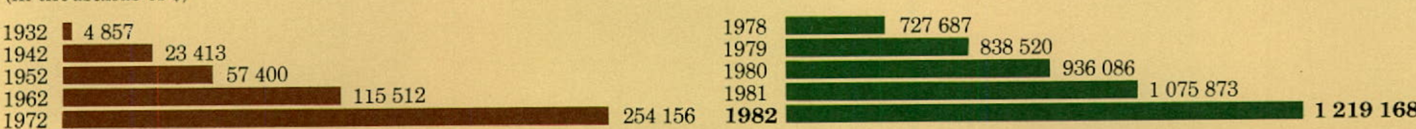
Dairy production is probably still the one that provides our farmers with the largest proportion of their gross income. They are sure to receive their milk payments every two weeks, a regular income not to be despised. But if we take the trouble to look back a few years, and calculate the percentage of gross income and compare it with increased production costs, we cannot help but note that the situation has deteriorated.

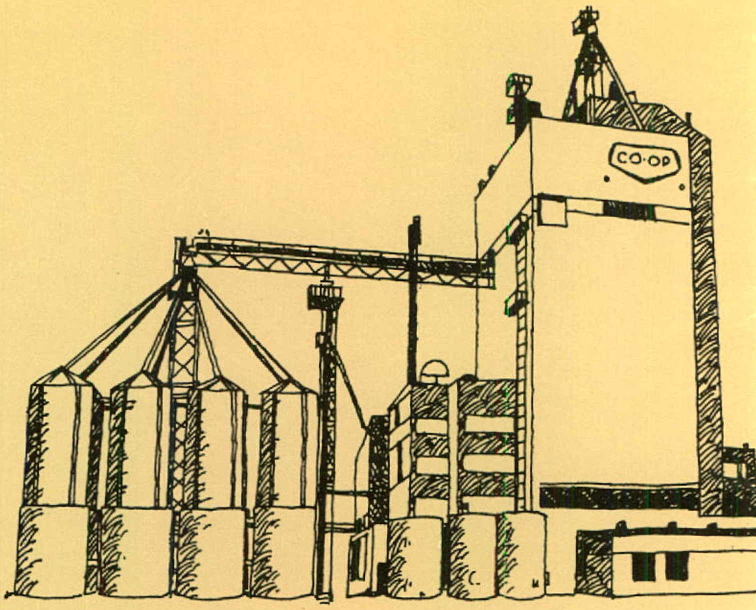
The farmers who find themselves the worst off are those, especially the younger farmers who, in recent years, had to make large investments right at the time when interest costs were prohibitive. Unable to meet their obligations, several had to abandon their operations, often with irreparably tragic consequences.

We will not elaborate on the other productions, where the situation has proved to be no rosier. At all levels, we were faced with increased expenses, particularly in financing and energy costs, which we were unable to recuperate through higher prices at the consumer level.

Considering all these factors, we should not be at all surprised that farmers have substantially reduced their purchases, especially of farm equipment. Coopérative Fédérée has not been spared in this respect, as pointed out in the management report.

Sales
(in thousands of $)





Board of Directors

Bruno Beaulieu,
Val Brillant, District 1

Georges Lévesque,
St-Simon, District 2

* **Alphonse-Roger Pelletier,**
1st Vice-President,
La Pocatière, District 3

Joseph Leblanc,
St-Anselme, District 4

* **Paul-Émile St-Pierre,**
President,
Laurierville, District 5

Clément Houle,
Victoriaville, District 6

Roger Bilodeau,
Bromptonville, District 7

* **Michel Lemire,**
2nd Vice-President,
St-Zéphirin, District 8

Léon Désautels,
Ste-Rosalie, District 9

Gilles Bissonnette,
St-Polycarpe, District 10

Lloyd Meyer,
Namur, District 11

* **Jean-Charles Mercier,**
St-Roch de l'Achigan, District 12

* **Paul Massicotte,**
Champlain, District 13

Paul Dessureault,
Dupuy, District 14

Léopold Harvey,
Délisle, District 15

* Members of the Executive Committee

The Management

Louis-Philippe Poulin,
Chief Executive Officer

Richard Newberry,
Treasurer

Marcel Gingras,
Secretary

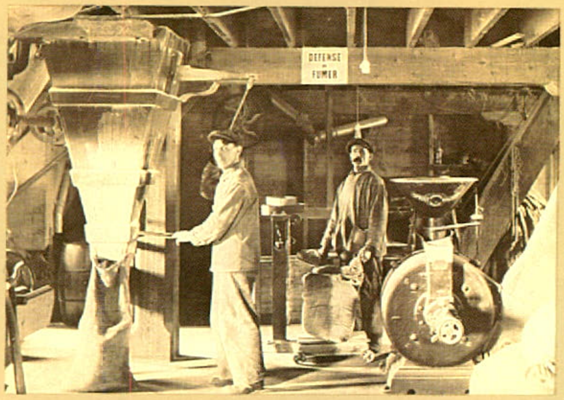
Jean-Paul Cadieux,
Manager,
Human Resources

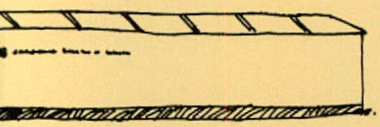
Gérard Turcotte,
Manager,
Meat Packing Division

Émile Cordeau,
Manager,
Poultry Division

Jean-Marc Bergeron,
Manager,
Dairy Division

Maurice Lavallée,
Manager,
Feeds and Fertilizers Division





Grain Transportation Policy

Let us recall that at the beginning of 1982 the Federal Government announced its decision to revise the Crow's Nest Pass agreement which, since 1897, has set the freight rates for transporting grain by rail. Mr. Gilson, a university professor from Western Canada, was appointed to study this question and prepare a report.

This report was presented to the government at the beginning of last summer, and the recommendations it contained immediately proved far from acceptable to farmers in Eastern Canada, especially those in Quebec. It should be underlined that the recommendations contained in the report if applied as a whole, would completely alter the regional balance of the Canadian farm economy. Also, it should be kept in mind that the funds allocated to this programme by the Federal Government would come from all Canadian taxpayers.

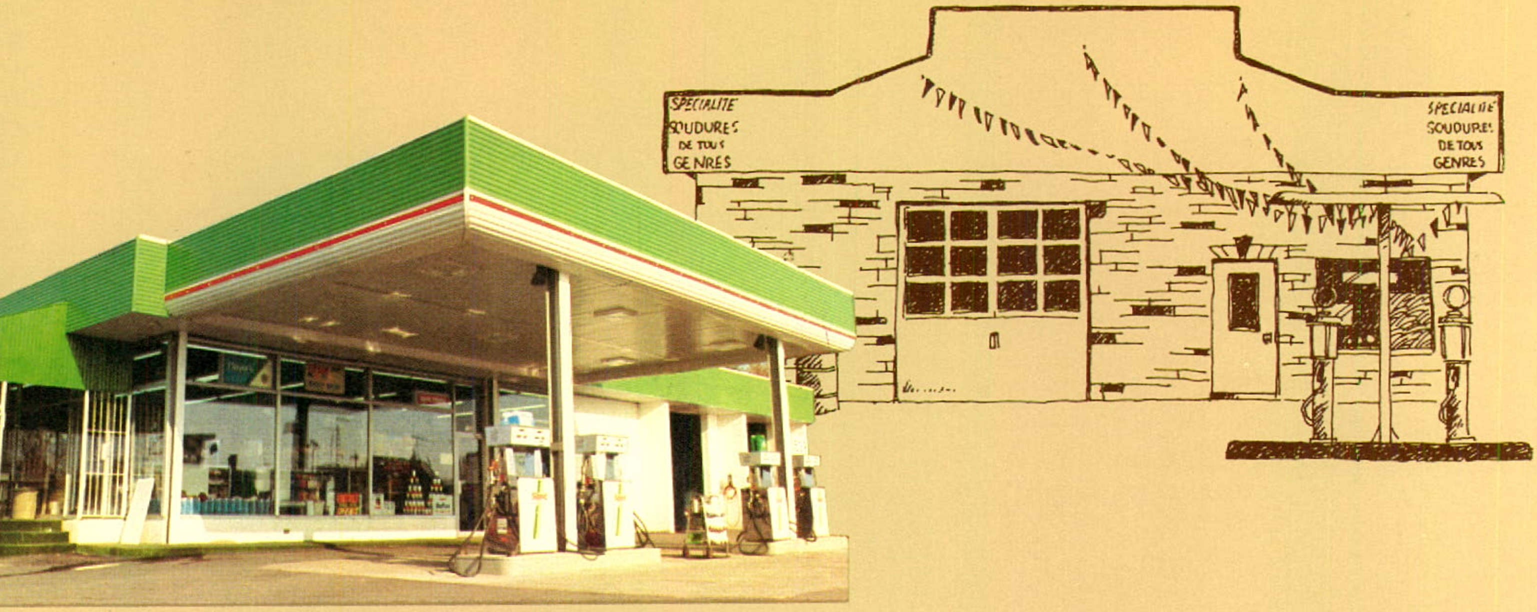
From the moment that Federal Transport Minister, Jean-Luc Pépin, announced the government's decision to revise the Crow's Nest Pass agreement, and therefore even before the Gilson Report was presented, Coopérative Fédérée and the U.P.A. reacted vigorously by making a series of interventions to the Federal authorities concerned.

It is also worth noting that Coopérative Fédérée and U.P.A. later were joined by other intervening parties, notably from the Quebec Department of Agriculture, Fisheries and Food, and from the provincial Department of Transport.

This alliance of some ten Quebec organizations led to the formation of a group called the «Coalition for the Survival of the Agri-food Industry in Quebec». Coopérative Fédérée and the U.P.A. are the two leaders in this movement, without in any way minimizing the support of the other participants. A provincial tour to create public awareness was organized, with all members of the Coalition participating, including the two Quebec government departments.

Twelve meetings were held, in all regions of Quebec, at which thousands of people were given explanations on the Coalition positions on such important matters as: grain prices, the role of the Canadian Wheat Board, access to export markets, grain self-sufficiency, but especially the Gilson Report.

These representations caused the federal authorities to delay their decision and we were hopeful that government officials would take substantial note of the arguments presented by the representatives of Quebec farmers. But as this report is being prepared, the Federal Government has announced that it will present a bill to change the grain transportation policy in Western Canada, based almost entirely on the recommendations contained in the Gilson report. After this announcement, the members of the Coalition have decided to continue the fight. We still hope that additional representations will cause the authorities to alter the decision announced on February 1, 1983, and to introduce another legislation that will be more equitable to our farmers. A report relative to this essential question will be submitted at this meeting.



Relations with the Farm Union

Our relations with the farm union were on an especially frequent basis during the past year, and were generally productive. We only need to mention the joint actions taken regarding the previously mentioned grain transportation policy, the national dairy policy, interest rates, the hog crisis, and other problems dealt with at the same time. In each case, representatives of the union and the farm co-operative movement formed a common front to defend the interests of Quebec farmers.

The most striking example is certainly the march on Quebec City, on April 1, 1982. Some 8,000 farmers from all regions of the province gathered in Quebec's Coliseum to join their voices in protest against conditions in the province's hog production industry, then suffering a tragic crisis. It was truly an unusual show of solidarity. We would like to remind the delegates that the participation of the farm co-operative movement in the march on Quebec City was demanded during the debates on hog producers' problems at our Annual Meeting last February.

On the other hand, negotiations between the dairy co-operatives and the Quebec Milk Producers Board were much more difficult. A special report on that subject will also be submitted at this meeting.

The mandate of the Professional Commission on Agriculture stipulates that it must meet at least four times a year. In 1982, its members held only two meetings, but it should be made clear that neither of the two parties was directly responsible for this breach of the rule. The numerous joint representations made throughout the year quite simply left the members of the Commission no time for additional meetings.

The authorities of both organizations firmly intend to correct this situation in 1983. The programme for the upcoming meetings has already been drawn up. The Commission will continue the study it began in 1982 to define the major roles of each of the two important agricultural organizations: the co-operative movement and the farm union. Even when defined, these roles will not necessarily be cast in stone. But our feeling is that such an exercise will help to prevent a great number of mishaps that our relations have suffered from in recent years.

The Co-operative Scene

Once again in 1982, the farm co-operative scene was an extremely active one. The two major events were the Congress of the Feedmill Co-operatives and the Congress of the Co-operative Dairy Industry. They deserve special mention because of the very relevant themes that were selected: respectively, the "Management of Co-op Resources" and "Self-financing, the Key to Growth". These two gatherings proved highly successful, both because of their flawless organization and the spirit and serious attitude displayed by all participants.

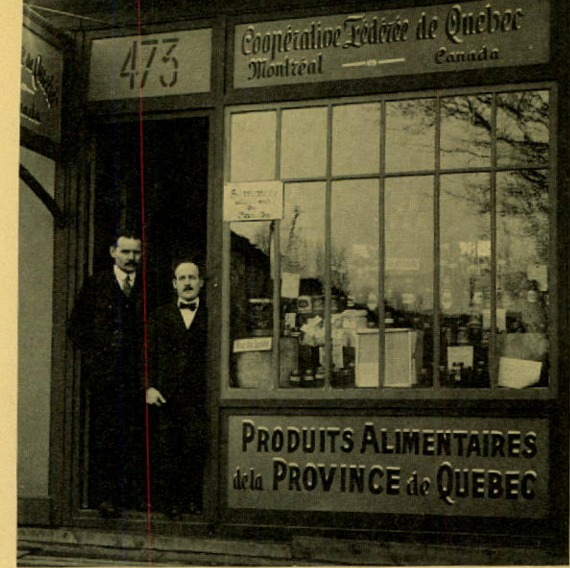
Mention should also be made of various meetings set up by some of our operational departments. Neither should we forget the commemoration of the 50th anniversary of the founding of the St-Félix-de-Valois hatchery, and the recent official opening of our new industrial feedmill in Joliette.

Savings

**
(in thousands of $)

1932	2
1942	115
1952	481
1962	(1 748)
1972	5 084
1978	10 110
1979	14 866
1980	12 142
1981	9 739
1982	**5 629**

**Before extraordinary items, patronage refunds and income taxes.




Le Coopérateur Agricole

NOTRE BULLETIN MENSUEL

We also would like to call your attention to the numerous achievements of several member co-operatives and the marketing of new products which reinforce our movement's role in the Quebec economy. The sale of one of these products, Savourin butter, by the seven regional dairy co-operatives, members of the Federation, is worth mentioning as a striking example of interco-operation.

During the past year, several of our member co-operatives celebrated their 25th, 35th, 40th and even 50th anniversaries. During the ceremonies organized to mark these milestone events, it was easy to sense the feelings of pride that they aroused, both in honouring the pioneer founders and those who carried on the work they started. Once again, this provides further proof of our movement's vitality, as well as the constant loyalty of its members. Moreover, this is the only way to ensure the continuity of our co-operatives.

Last October, we began a tour of different regions in the province to meet the directors and managers of member co-operatives. Eight meetings have already been held and others are planned during the weeks following our Annual Meeting. One segment of each meeting is reserved for the directors only, while the second brings together the directors and managers.

The objective of this round of meetings is to take the pulse of what we call "the field" so that our Federation can better adapt itself to member needs. Extremely important subjects are discussed, such as the role, powers, responsibilities and training of co-operative directors. The meetings also consider the structure, orientation and planning of our movement's activities, which are of primary importance.

Relations between the co-operatives themselves are also part of the agenda, such as the various commercial and industrial activities and the even more special question of services to be provided to members. Comments collected following the meetings already held allow us to conclude quite easily that they answer a real need and are greatly appreciated by all participants. We have already been asked to repeat the experiment in the nearest possible future.

Finally, we would like to thank all our member co-operatives for the loyal support they have given their Federation. At the same time, we wish to congratulate the members of these co-operatives for their continued confidence in the institutions which they jointly own. These are difficult times, certainly, but it is especially under such conditions that members must show proof of exemplary solidarity. We are counting strongly that this sentiment will motivate all of us, together, in the pursuit of our new objectives.

We also wish to thank our colleagues on the Board of Directors for the substantial amount of work they have been called upon. Our Board met eleven times during the year, and our Executive Committee held fifteen meetings. All our management people and staff made a strong contribution in the face of difficult economic conditions, and we are grateful to them for the additional efforts they displayed and the extremely efficient assistance they gave us during the 1981-82 financial year.

Last but not least, we extend the sincere wish that 1983 will bring us an improved economy that will mean better and more profitable business conditions for us as farmers, for our co-operative institutions, and for our Federation.

Paul-Emile St-Pierre
President

Consolidated Statement of Operations
for the year ended October 31, 1982

	1982	1981
Sales	**$ 1 219 168 157**	$ 1 075 873 085
Cost of goods sold	**1 079 633 892**	948 530 634
Gross savings	**$ 139 534 265**	$ 127 342 451
Expenses		
Wages, salaries and employee benefits	**$ 63 894 121**	$ 55 730 787
Other operating expenses	**15 968 529**	14 185 493
Distribution and selling expenses	**21 885 583**	21 227 746
General administrative expenses	**7 966 576**	6 108 273
Interest on long-term debt	**5 863 610**	3 749 675
Other financial expenses	**12 638 781**	10 975 043
Depreciation	**5 688 165**	5 626 829
	$ 133 905 365	$ 117 603 846
Savings before patronage refunds and income taxes	**$ 5 628 900**	$ 9 738 605
Distribution of savings		
Patronage refunds	**$ —**	$ 5 000 000
Income taxes — current	**104 280**	1 008 834
Income taxes — deferred	**1 316 319**	284 090
Net savings for the year	**4 208 301**	3 445 681
	$ 5 628 900	$ 9 738 605

Consolidated Statement of General Reserve
for the year ended October 31, 1982

	1982	1981
Balance at beginning of year	**$ 28 603 316**	$ 25 157 635
Net savings	**4 208 301**	3 445 681
Balance at end of year	**$ 32 811 617**	$ 28 603 316

Consolidated Balance Sheet
as at October 31, 1982

Assets	1982	1981
Current		
Cash	$ 2 356 117	$ —
Accounts receivable	97 074 546	107 243 785
Inventories	81 330 771	97 320 320
Prepaid expenses	3 668 323	3 214 890
Income taxes	—	165 445
Investments — current portion	546 760	457 540
	$ 184 976 517	$ 208 401 980
Deferred accounts receivable	$ 555 750	$ 929 383
Investments (note 2)	$ 15 932 873	$ 13 806 237
Fixed assets (note 3)		
Land, buildings and equipment, at cost	$ 86 148 979	$ 76 646 025
Accumulated depreciation	41 049 836	36 555 036
	$ 45 099 143	$ 40 090 989
Other assets (note 4)	$ 2 485 531	$ 1 914 569
	$ 249 049 814	$ 265 143 158

Approved by the Board

Paul-Emile St-Pierre, Director
Alphonse-Roger Pelletier, Director

Montreal, January 24, 1983.

Liabilities and Members' Equity	1982	1981
Current		
Outstanding cheques, less cash	**$ —**	$ 3 923 255
Bank loans	**12 100 000**	28 490 000
Notes payable	**59 822 000**	59 951 435
Accounts payable and accrued liabilities	**55 494 337**	57 758 604
Patronage refunds	**—**	2 000 000
Redemption of share capital (note 7)	**2 324 831**	2 010 265
Income taxes	**314 668**	—
Current portion of long-term debt	**7 688 017**	4 102 718
	$ 137 743 853	$ 158 236 277
Long-term debt (note 5)	**$ 40 446 677**	$ 38 379 221
Deferred income taxes	**$ 4 485 493**	$ 3 404 556
Members' equity		
Share capital (notes 6 and 7)	**$ 33 562 174**	$ 36 519 788
General reserve	**32 811 617**	28 603 316
	$ 66 373 791	$ 65 123 104
	$ 249 049 814	$ 265 143 158

Commitments (note 9)

Consolidated Statement of Changes in Financial Position
as at October 31, 1982

	1982	1981
Source of funds		
Funds derived from operations		
Net savings	**$ 4 208 301**	$ 3 445 681
Charges to operations not requiring outlay of current funds	**6 815 331**	5 711 412
Funds from operations	**$ 11 023 632**	$ 9 157 093
Decrease (increase) in deferred accounts receivable	**373 633**	(244 631)
Redemption of investments	**591 754**	689 341
Proceeds on disposal of fixed assets	**1 263 083**	672 014
Increase in long-term debt	**9 844 168**	18 531 975
Shares issued	**646 153**	3 041 419
	$ 23 742 423	$ 31 847 211
Application of funds		
New investments	**$ 2 783 891**	$ 4 251 895
Additions to fixed assets	**11 576 117**	9 641 855
Production licences and deferred charges	**934 974**	140 923
Decrease in long-term debt	**7 776 712**	4 441 218
Shares redeemed	**3 603 768**	2 572 399
	$ 26 675 462	$ 21 048 290
Increase (decrease) in working capital	**$ (2 933 039)**	$ 10 798 921
Working capital at beginning of year	**50 165 703**	39 366 782
Working capital at end of year	**$ 47 232 664**	$ 50 165 703

Notes to Consolidated Financial Statements
as at October 31, 1982

Note 1 — Accounting policies

Consolidation — The consolidated statements include the accounts of Coopérative Fédérée de Québec and of its subsidiaries.

Inventories — The inventories are stated at the lower of cost and net realizable value.

Investments — All investments are accounted for at cost.

Fixed assets — Fixed assets are stated at cost and are depreciated on the diminishing balance basis at the following rates:

Buildings	— 5% et 10%
Machinery and equipment	— 20%
Automotive equipment	— 30%

Production licences and rights — The production licences and rights are amortized at the rate of 10% on the straight-line method for half of their cost and on the diminishing balance basis for the other half.

Income taxes — Coopérative Fédérée de Québec and its subsidiaries provide for income taxes on the basis of tax deferment. The deferred income taxes result in timing differences between the recognition of expenses (mainly depreciation) for accounting and for income tax purposes.

Note 2 — Investments

	1982	1981
Corporate shares	**$ 12 470 761**	$ 10 667 653
Mortgages and notes receivable	**4 008 872**	3 596 124
	$ 16 479 633	$ 14 263 777
Current portion	**546 760**	457 540
	$ 15 932 873	$ 13 806 237

Note 3 — Fixed assets

	1982		1981	
	Cost	**Net book value**	Cost	Net book value
Land and land improvements	**$ 3 407 052**	**$ 3 218 110**	$ 3 106 783	$ 2 946 737
Buildings	**30 309 903**	**19 872 359**	28 283 686	18 930 455
Machinery and equipment	**39 932 795**	**17 244 135**	33 693 112	13 732 121
Automotive equipment	**12 499 229**	**4 764 539**	11 562 444	4 481 676
	$ 86 148 979	**$ 45 099 143**	$ 76 646 025	$ 40 090 989

Note 4 — Other assets	1982	1981
Goodwill	$ 1	$ 1
Production licences and rights at unamortized cost	**2 098 165**	1 833 738
Deferred expenses	**387 365**	80 830
	$ 2 485 531	$ 1 914 569

Note 5 — Long-term debt	1982	1981
Debentures, 9%, 1985	**$ 1 800 000**	$ 1 800 000
Debentures, series D, 9⅞%, 1985	**1 000 000**	1 000 000
Debentures, series F, 10%, 1983-86	**1 000 000**	1 844 800
Debentures, series G, 10%, 1983-87	**2 424 200**	2 427 700
Debentures, series H, 9½%, 10%, 1983-88	**3 607 200**	3 631 700
Debentures, series J, 10¾%, 1983-89	**1 862 600**	1 881 100
Debentures, series K, floating rate, 1983-89	**2 550 000**	3 000 000
Debentures, series L, 14¾%, 1983-93	**4 950 000**	5 000 000
Debentures, series M, floating rate, 1993	**2 000 000**	2 000 000
Debentures, series N, 15%, 1983-93	**1 966 666**	2 000 000
Bonds, 8⅞%, 1983-93	**2 274 000**	2 394 000
Bonds, 9.9%, 1982	**—**	6 900
Bonds, 7¾%, 1983-87	**375 000**	450 000
Bonds, 7½%, 1982	**—**	35 000
Unsecured debts, floating rate, 1988-91	**15 000 000**	8 000 000
Term purchase loans, 8½%, 9%, 1983-85	**6 451 947**	6 521 506
Other	**873 081**	489 233
	$ 48 134 694	$ 42 481 939
Current portion	**7 688 017**	4 102 718
	$ 40 446 677	$ 38 379 221

Long-term debt due in each of the next five years is as follows:

1983 — $ 7 688 017; 1985 — $ 3 445 372; 1987 — $ 1 850 243.
1984 — $ 5 238 604; 1986 — $ 1 986 231;

Note 6 — Share capital

According to section 5 of the Act incorporating Coopérative Fédérée de Québec, the share capital is composed of the common shares subscribed by the members and of the preferred and common shares issued by it. Such share capital is variable. Common and preferred shares may be redeemed by resolution of the Board of Directors inasmuch as the provisions of the trust deeds are complied with. They may be reissued.

	1982	1981
Preferred shares of $ 10 each		
1973 series, redeemable at no set date	$ —	$ 7 880
1974 series, redeemable at the latest in 1984	2 271 540	2 328 890
1975 series, redeemable at the latest in 1985	2 268 130	2 342 930
1976 series, redeemable at the latest in 1986	1 894 680	1 961 730
1977 series, redeemable at the latest in 1987	2 834 040	2 954 210
1978 series, redeemable at the latest in 1988	867 650	998 550
1979 series, redeemable at the latest in 1989	1 210 080	1 266 310
1980 series, redeemable at the latest in 1990	2 266 220	2 349 000
1981 series, redeemable at the latest in 1991	1 769 530	1 864 360
1982 series, redeemable at the latest in 1992	1 847 710	1 500 000
	$ 17 229 580	$ 17 573 860
Common shares		
Qualifying shares of $10 or $25, convertible in preferred shares	$ 24 695	$ 24 695
Qualifying shares, class A, of $25 each	1 867 000	1 705 225
Class C, of $10 each	—	2 270 230
Class D, of $25 each	14 390 325	14 897 800
	$ 16 282 020	$ 18 897 950
Partially paid	$ 50 574	$ 47 978
	$ 33 562 174	$ 36 519 788

Note 7 — Redemption of shares

At their meeting held on January 24, 1983, the Directors resolved to redeem shares for an amount of $2 324 831. This redemption is stated in the financial statements.

Note 8 — Remuneration of Directors and senior Officers

The remuneration of Directors and senior Officers amounted to $805 422 in 1982 (1981 — $723 423).

Note 9 — Commitments

a) Minimum annual rental expenses, as per lease agreements for buildings and equipment, amount to approximately $675 000.

b) The estimated costs to complete fixed assets under construction and to acquire equipment on order amount to appproximately $1 500 000 as at October 31, 1982.

Auditors' Report

To the members of Coopérative Fédérée de Québec,

We have examined the consolidated balance sheet of Coopérative Fédérée de Québec as at October 31, 1982 and the consolidated statements of operations, general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances. We have obtained all the information and explanations we have required.

In our opinion, these consolidated financial statements present fairly the financial position of Coopérative Fédérée de Québec as at October 31, 1982, and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mallette, Benoit, Boulanger, Rondeau & Associés
Chartered Accountants.

Montreal, January 24, 1983.

The Management Report

The several problems which weigh so heavily on the western world's economies seriously affected the results of several activities of Coopérative Fédérée in 1982. Added to the general difficulties, we also felt the impact of unfavourable conditions which prevailed in certain markets linked with farm supplies and marketing of farm products.

Some types of farm production at the primary level benefit from various forms and degrees of protection, due to government intervention to ensure decent income to producers. But most parts of the secondary sector, including the agri-food and farm supplies industries, had to make their own way on free competitive markets.

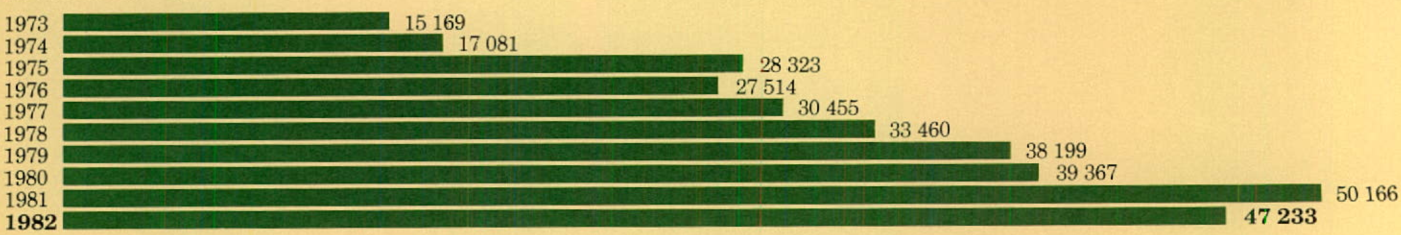
Food industries in the western world are all faced with surplus production and a declining, rather than expanding, market for agricultural supplies. In this context, several factors are at work either individually or concurrently to reduce sales, shrink unit margins, defer investments and purchases, and discourage growth. Sales levels are difficult to maintain and profitability is badly mauled. Financial results of the last financial year are positive only because of the relative stability of some activities of the Federation and government aid given to particular groups of producers.

Sales at $1,219 million, are 13.3% higher than last year. Gross savings were up by 9.6%, from $127.3 million to $139.5 million, and as a percent of sales they are 11.5% compared with 11.9% the previous year.

Total expenses at $133.9 million were 13.8% higher than the previous year's $117.6 million and represent, as the year before, 11% of sales. It must be noted that net financing costs at $18.5 million increased by $4 million or 25.8% over the previous twelve month period, compared to 56.4% over the 1980-81 financial year. To these higher financing costs we must add an increased allowance for doubtful accounts of $1.7 million, bad debts that more than doubled the previous year's, a year-end write-off of inventories of more than $1 million to reflect lower market values and a loss on farm equipment in the order of $4.5 million, compared with a $1.62 million profit the previous year. Those were among others the factors which had an important negative impact on our financial results.

Savings from operations before patronage refunds and income taxes totalled $5.6 million compared to $9.7 in 1980-81. These overall results prove the validity of the comments made at the beginning of this report. By analyzing the operations of the various Departments and Divisions, we can make an enlightened assessment of the strong and weak points of the 1981-82 financial year.

Working capital
(in thousands of $)



Meat Packing Division

At the beginning of the year, the Meat Packing Division operated two livestock slaughtering and packing plants at Vallée Jonction and Princeville, cutting and curing facilities at Princeville, and the Canadian Livestock Cooperative, which acts as a commission agent at the Montreal West-End Public Livestock Yards.

Although this Division achieved better results than the year before, the figures are still disappointing. The factors which combine to make life difficult for hog producers since a few years, have not spared the industry's secondary sector as decreased hog production in North America triggered a war of supply to the abattoirs; export markets suffered from weak foreign currencies in comparison with the Canadian dollar, as well as from export subsidies provided by some countries with surplus production; pork consumption discouraged at certain periods by the competitive meat pricing structure; a large year-end inventory loss and reduced margins followed by diverging price trends in raw materials versus wholesale meat prices.

While hog prices during the second half of the year allowed producers to recuperate some of the heavy losses they accumulated for almost two years, they caused serious losses to the processors, which were unable to recover their higher costs through wholesale prices for pork cuts.

Sales, at $238.4 million, were up by 25% over the previous year. Overall volume increased by 12.7%, to 248 million pounds, but cutting and curing products volume was down. The higher total volume was due mainly to a 38.7% increase in hog receipts at Princeville. Receipts at Vallée Jonction rose by 4.7%.

All livestock receipts at the Division's two plants rose to 1,368,745 heads, a 14.6% increase over 1980-81. Hog receipts were up by 15%. In relation to the Quebec hog production as a whole, we can note that the cooperative movement is playing an ever increasing role.

On May 29, 1982, the Canadian Livestock Cooperative of Quebec Limited closed its doors after a half-century of operations. The reasons for this decision have already been made public. We are referring to it again only as a reminder that the gradually decreasing value of this subsidiary's role had made such a move inevitable.

Export sales increased by more than 45% over the previous year. The United States retained first place in terms of volume, with Japan second, while the balance of sales abroad was shared among several other countries.

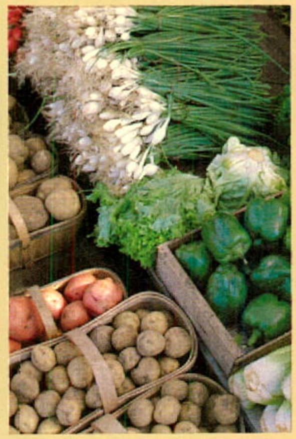
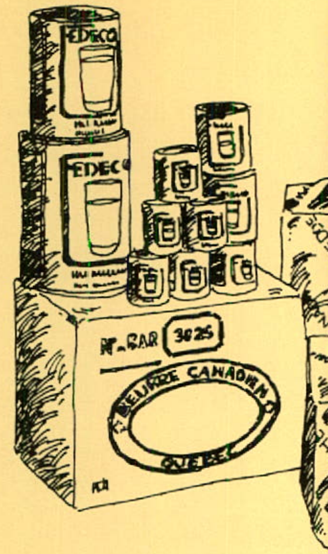
Losses of the Division declined to not quite half of those recorded the previous year. This improvement was due primarily to the results of the first six months, which produced a most encouraging contribution. Starting in June, however, the Meat Packing Division went through one of the worst periods on record, and it was only at the end of the financial year that we were able to glimpse the beginning of a positive trend.

Poultry Division

Based on results by periods, the Poultry Division business pattern was just the reverse of the Meat Packing Division. A serious surplus of birds, accompanied by a drop in consumption, undercut the general price structure and resulted in the highest inventory level ever reached by the Division. This situation caused substantial losses during the first half of the year, and even the positive results obtained in the second half could not erase them completely.

Sales totalled $138.8 million, an increase of 21.5% over the previous year. Volume of birds processed remained at the level of recent years, our Federation maintaining its market share. While the Division posted negative results, losses last year were only one-third of those reported in 1980-81.



While it should be recognized that the consequences of the 1981 labour dispute were still being felt at the beginning of the financial year, the poultry marketing situation was mainly responsible for these negative results. Once again, this caused difficulties in supply, hampering efforts to adapt production to foreseeable market demand, especially evident in the chicken sector. If hog prices had not risen sufficiently to trigger increased demand for turkeys, the results would have been even more negative.

Following a profitability study at the St-Elie d'Orford (Camille Laliberté Inc.) distribution centre, it was decided on March 27, 1982, to discontinue this subsidiary's operations and serve the Eastern Townships from one of the South Shore St. Lawrence plants. This subsidiary's installations were subsequently sold.

Fruits and Vegetables

While the previous financial year was the best in a long time for the Fruit and Vegetable Department, 1981-82 turned out to be one of the least satisfactory, even though final results were positive. Despite an increase of nearly 10% in volume, the Department found itself faced with a double problem: reduced sales and margin.

Dairy Division

Dairy Division results showed only a slight decline from the preceding year. Sales reached $367 million, an increase of 20%, due to higher volume and higher prices.

An analysis of the Division's sales shows increases in butter, whole milk powder and skim milk powder, but decreases in evaporated milk and cheese. Overall, this indicates the diversified production of the dairy co-operatives. Higher butter and milk powder sales can be explained by reduced cheese production, as a result of substantially lower demand for this product, along with the late start of production of evaporated milk and whole milk powder for export.

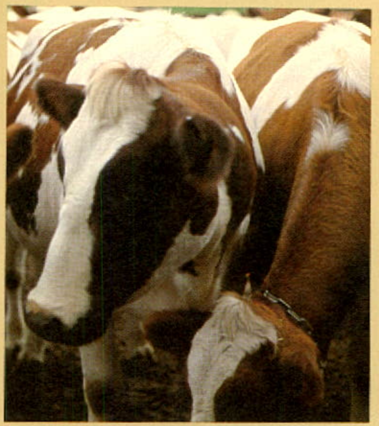
Contributions by the Division's various Departments, with the exception of the Technical Department, were all close to those made the previous year. This latter Department, which provide consulting and quality control services to the dairy co-operatives, saw its costs go up.

The Division's international trade with the co-operation of the Canadian Dairy Commission continues to be of prime importance. The search for new markets and introduction of new products on existing markets, as well as an orientation for greater exports of whole milk, are the essential factors in the efficiency of Canada's dairy policy, and as a result, its continuity.

International trade is becoming more difficult, however. Some of the important markets are in oil exporting countries whose revenues are dropping, and where most national currencies are weak in comparison with the Canadian dollar. Finally, most large producing countries are accumulating surpluses of dairy products, especially butter and skim milk powder.

On the domestic trade, mention should be made of the joint initiative taken by the dairy co-operatives to produce and market a high quality butter under the SAVOURIN brand. While export markets are of considerable importance in disposing of national dairy surpluses, expansion of the Quebec Dairy Co-operative Industry's presence on the domestic market must be viewed as one of the primary objectives aimed at by this leading sector of our movement. It is in that perspective that the SAVOURIN butter initiative assumes great importance.

The Division is the important medium through which the Co-operative Dairy Industry channels its many and intensive activities. The Division ensures the operations of the Co-operative Dairy Council, which continues to provide a common meeting ground for Co-operative Dairy Leaders and Managers, where policies and attitudes of the co-operative dairy sector are formulated.

The work of the Co-operative Dairy Council is based on research designed to define the problems that arise and support the requests it must make to the appropriate authorities. Other useful mechanisms within the division provide the tools for the consultation, reflexion and research needed to support the work of the Council and of the Division's Management.

Feeds and Fertilisers

Once again, the Feeds and Fertilizers Division proved to be the largest source of earnings in our Federation. With the single exception of one minor activity, all Departments have positive contributions. An analysis of business activities by various operational units shows some upward or downward variations in volume. But, on the whole, the Division more than maintained its positions in most of its endeavours.

Overall sales totalled $199 million, down by 8.8% compared with the preceding year, due almost entirely to lower feed grain prices.

Net earnings of the Division were unchanged from the year before. While revenues generated by operations were an important factor, substantial inventory gains also made a strong contribution to the improved gross margin. It is of interest to note that while the 1980-81 results included about $3 million in patronage refunds from C.F. Industries Inc., these refunds amounted to only one-half million dollars in 1981-82. Better results achieved by the Division made up for this difference in outside revenue.

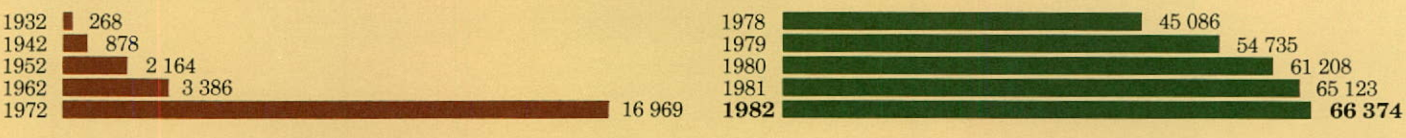
Grain Department sales decreased by almost 21% in value and about 5% in volume. This lower volume is due mainly to the continuing increases in Quebec production of grains, especially corn. Reduced dollar value reflects the trend to lower prices following record feed grain production for the second year in a row, and a drop in American exports. Aided by good margins and a substantial inventory gain, the Grain Department reported the best net savings in a long time. However, the grain drying plant at Napierville operated at a deficit because of low volume and extremely fierce competition.

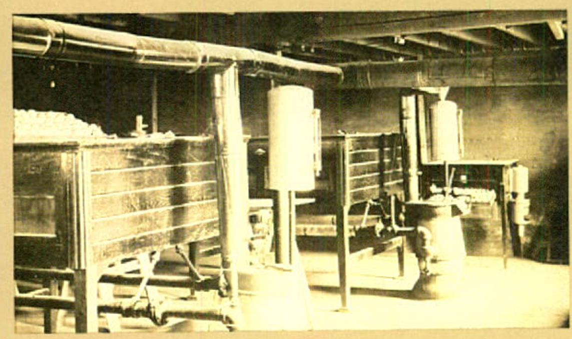
It is worth recalling once again that feeds still play a leading role in the business activities of North American farm supply co-operatives. Feeds Department sales were down by 1.5% compared with the preceding year, but if a sales comparison of all products is made on the same basis as last year, that is, their equivalent content of concentrates, a 2.7% increase in volume becomes evident. This indicates that the Department suffered no market setback. Cattle and poultry feeds volume increased, while hog feeds showed a decrease. Sales trends of various products indicate that the farm co-operative movement still occupies a strong position in the dairy feeds.

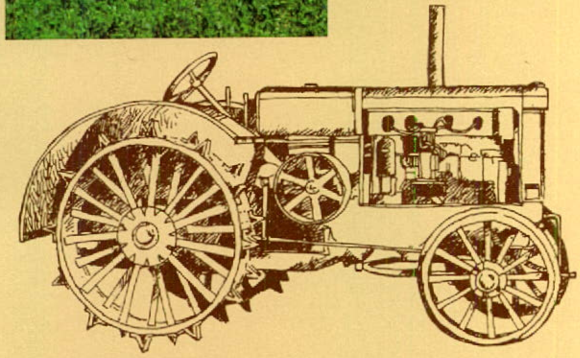
Although the effects of the St-Henri feedmill fire are still being felt, the problem has been greatly eased by the redistribution of production among the Department's other plants. Good purchases made at the right moment have also resulted in substantial inventory gains. Both these factors have more than compensated for the drop in revenue generated by manufacturing operations. This decrease largely reflects the impact of the transition to the use of pre-mixes, and a reduction in the margin for concentrates as a whole.

The prominent role the Quebec farm co-operative movement plays in manufacturing all kinds of feed is a good indication of the importance that Quebec's co-operative farmers have always attached to this large industry. The results also testify to the quality achieved in this field by both levels of our movement.

Members' equity
(in thousands of $)







Sales of livestock health products were up by only 2.2%, and this increase was attributable mainly to higher prices. Competition in this market is very keen. Hatchery Department sales remained at the same level as the year before, but volume was down by 3.7%. Higher broiler chick prices, less sales discounts, along with higher earnings from pullet sales and well controlled expenses, resulted in net savings which made 1981-82 one of the Hatchery Department's most profitable years.

Fertilizer usage trends in Quebec ran contrary to the general North American pattern. During the Fertilizer year ended June 30, the Quebec farm co-operative movement volume increased by about 3%, while preliminary figures indicate a general decrease throughout North America. Fertilizer sales for the financial year rose by 7.7%, and volume was 8% higher than a year ago. Blended products of specific formulas and liquid nitrates accounted for about 50% of this volume.

The contribution resulting from the Department's operations was the best in its history, but if we take into account the patronage refunds paid in recent years by C.F. Industries, Inc., net savings are down from the previous year, and also lower than in 1979-80.

Farm Chemicals Department volume was down, but due to higher prices, sales were equivalent to the previous year's. This lower volume is attributable to the dry weather last Spring, which reduced the use of herbicides and insecticides, along with decisions by several co-operatives to maintain substantially lower inventories. As a result, its contribution was slightly lower than in the preceding year.

Seeds Department sales dropped in volume by about 3.5%, as increased sales of grain seeds failed to compensate for reduced sales in forage crop seeds. Financial results improved over the preceding year as the Department was able to achieve a better margin.

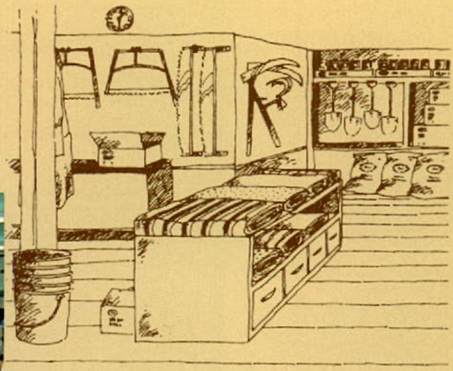
Agricultural Supplies

The Agricultural Supplies Division recorded a loss for the first time in five years. The loss of $2.6 million compares with net savings of $4.2 million a year earlier, and reflects the difficulties encountered by the Farm Implements Department. The Farm Supplies Department also reported negative results, although the gap was not as wide as in 1980-81. The Petroleum Department had a profitable year, but not enough to make up for the losses of the two other Departments.

Farm Supplies Department sales were down for the second consecutive year. The reduction was a large one, more than 13%, and in view of higher price trends it would appear that there was an even greater drop in volume. Only dairy farm supplies showed an increase. The largest reductions were in farm supplies, building materials, electrical and plumbing supplies. When we consider the efforts made to maintain the gross margin and to reduce expenses by more than 10%, we have to conclude that the basic problem for this Department is always one of volume.

During the year, the Farm Implements Department was the real "soft sector" in our Federation operations. Sales plummeted by 46% and, needless to say, the gross margin took the same path. All expenditure items were quite close to the previous year's costs, except for financing costs, which climbed from $1.2 million to $3.74 million. Along with this leap in financing costs, the Department made a write-off of aged and obsolete inventory of $700,000. At $4.5 million, this loss made 1981-82 the worst year in the history of the farm co-operative movement's involvement with farm implements.

We could talk at length about the reasons for such a disastrous slump in farm equipment, and the average farmer could undoubtedly have even more to say than we do about how it affects him. In a business context favouring extremely stiff competition between manufacturers, our Federation had no other alternative than to accept the lesser of two evils and try to move out a substantial inventory in the best way possible. Moreover, the entire industry throughout the year maintained sales policies which generated losses from their beginning.



The information media have dwelt at length on the precarious situation of the large farm machinery manufacturers, and the crisis ravaging the entire Western World. The Quebec farm co-operative movement has not been spared at both the wholesale and retail levels. Until this last year, the Farm Implements Department had regularly operated at a profit for the past 15 years. We hope that we can survive the present situation without too much damage.

Petroleum Department sales increased by almost 30%, due to escalating prices, but the volume picture was entirely different. Overall volume was down by 14%, with a 20.4% drop in heating oil and diesel fuel and a 4.6% drop in gasoline. Furthermore, margins did not keep pace with price increases. So it was only by cutting expenses by 10% that the Petroleum Department was able to produce acceptable net savings, but still 30% lower than the year before. One of the main causes of shrinking margins was the price war which flared up throughout most of Quebec at the beginning of 1982, and the closing of many retail outlets for certain periods.

The petroleum distribution structure within our movement has undergone profound changes. One of the consequences is that the integrated co-operatives and the distribution centres operated directly by the Department now handle almost 60% of the gazoline and heating oil volume. At the end of the financial year, the Department was servicing directly almost 30,000 users and customers.

The rapid growth of the retail distribution system was accompanied by increased competition from electricity, natural gas and wood. The Department now finds itself obliged to increase gasoline sales, to make up for lower heating oil volume.

There have already been vast changes, with more to come, within the Canadian refining industry and on world oil markets. As is the case with other activities where Coopérative Fédérée is involved, this industry has never known stability. For several years now, we have had to revise our supply policies regularly to be able to adapt to any possible situation.

In several of the fields they are active in, the two Divisions supplying farmers often run into unforeseeable, and very complex situations which affect their operations more negatively than positively. Some examples are: high capital costs; the decreasing ability of a great number of farmers to buy and invest; the setting of production quotas on some basic farm commodities and the trend towards lower hog production; the serious malaise affecting the North American fertilizer industry; the merging or disappearance of some co-operatives; the uncertainty surrounding certain government policies to provide assistance to farmers; the price levels of some agricultural products. All these factors alter the types and degrees of competition that must be met, as all segments of the industry try to maintain their relative importance in a market that is certainly not growing.

Financial Situation

Working capital at the end of the financial year stood at $47.2 million, down by $2.9 million from the year before. Accounts receivable, at $97 million, were down by $10.1 million from 1980-81. They represent 7.9% of sales, compared with 10% a year earlier. Overdue accounts receivable increased slightly, while the bad debts to sales ratio rose by 125%, compared with the year before. Looking at the overall picture, accounts receivable decreased by 9.5%, compared with a sales increase of 13.3%.

Inventories were 16.4% lower than at the previous financial year-end. The reduction noted in almost all Departments is attributable mainly to better inventory control and management.

Increasing the general reserve and the members' equity remains a foremost objective of the Board of Directors. The 1981-82 balance sheet shows a general reserve of $32.8 million, an increase of $4.2 million for the year, or 14.7% higher than the previous year. Members' equity rose by $1.3 million to $66.4 million.

Administrative Departments

The commercial and industrial units of our Federation can benefit at all times from the resources of our administrative departments: Treasury; Secretariat; Human Resources and Solicitor. The key services grouped within the Treasury Department are: finance, accounting, internal audit, risk management, property evaluation and taxation. The administrative departments, like the operational units, contribute to building a good corporate image for the Federation in all its endeavours.

Skilled people in these Departments are always ready to respond to every need of member co-operatives, thus constituting an important link between all sectors of our movement. Along with the daily commercial activities, these links of an institutional character unite and strengthen the co-operative family. Together, they form a dedicated team at the service of member farmers and the entire movement.

In conclusion, we can scarcely write or say anything much different, or even more optimistic, than what we find in the media and hear from the lips of politicians, economists and other business leaders in our country. Under the present and immediately foreseeable circumstances, all business enterprises have no choice but to manage in the best possible way the elements that they can still control.

With that in mind, every effort was made throughout the financial year to reduce expenditures over which management has a degree of control, even though it may affect services to some extent, and also to eliminate functions which may be useful but not strictly essential. Profitability studies were made of operational units in difficulty, to learn whether it would be possible to improve financial results and, if not, to shut them down.

Management of any enterprise can no longer offer people the satisfaction they could gain during other happier times. Today, they must often manage by choosing the lesser of two evils. Constraints like these are harder to bear than the positive risks of growth. Thus we must be grateful to all those in every nook and cranny of our movement who are aware of the difficulties facing us at the present time and who know how to react to them positively, even when the economic conditions hammer them below the belt.

Special tribute must also be paid to all those who have valiantly carried the load in the activities they participate in, or manage. Our thanks also go to the Directors, whose understanding and support are so vital at those difficult moments when painful decisions must be made. Nor should we forget to thank all our loyal colleagues who have responded willingly every time we called upon them for assistance, even though it made their daily task even more arduous and thankless. We live in a period when the search for what is our duty must take precedence over seeking the easy way out and over the yearning for popularity.

Louis-Philippe Poulin

Chief Executive Officer