
PROVIGO Inc.
C
Annual report 1998

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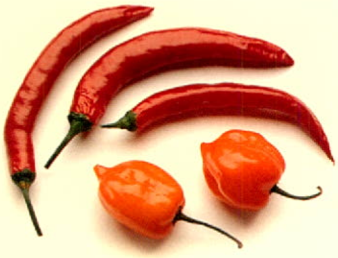


Profile

Provigo is one of Canada's leading distributors of wholesale and retail food products and general goods. The Company is the largest food retailer in Quebec and a major retailer in Ontario. In partnership with its retailers, suppliers and employees, Provigo is committed to satisfying the diverse and changing needs of customers by introducing innovative supermarket and discount store concepts.

SUPERMARKETS AND DISCOUNT STORES

These operations account for 80% of Provigo's sales figures.

Supermarkets

- **162 Provigo supermarkets** in Quebec, 83 corporate and 79 franchised or affiliated;
- **104 LOEB supermarkets** 12 in Quebec and 92 in Ontario, 74 of which are corporate and 30 franchised.

Discount stores

- **70 Maxi** stores of which 69 are located in Quebec and one in Ontario;
- **12 Maxi & Co.** superstores, nine in Quebec and three in Ontario.

WHOLESALE OPERATIONS

- **655 affiliated stores** under the Atout-Prix, Axep, L'Intermarché and Proprio banners; four corporate L'Économe stores and several **independent customers**;
- **Dellixo food services** (with approximately 2,000 clients in restaurants, hotels and institutions);
- **42 Presto and Linc self-serve stores** ("cash and carry" service for small and medium-sized businesses in the restaurant and convenience store industries in Québec and Ontario).

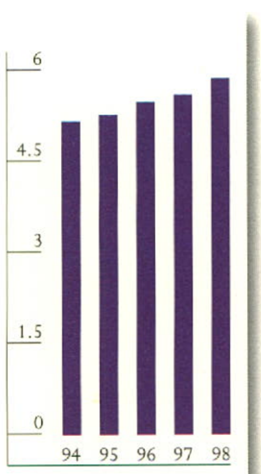
As at January 31, 1998, Provigo had 23,500 direct employees and another 14,000* employees in its affiliates and franchises.

* This takes into account the sale of C Corp. Inc.

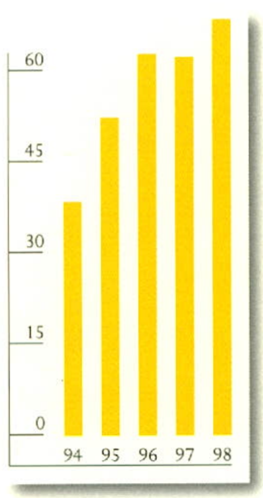
Financial highlights

Year ended January 31, 1998

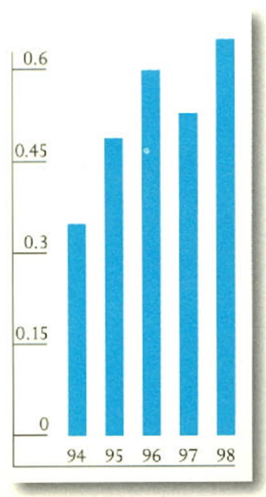
Millions of dollars except for per share data	1998 (53 weeks)	1997 (52 weeks)	Change
Operations (excluding operations of C Corp. Inc.)			
Net sales	**5,872.3**	5,605.1	4.8%
Operating income before depreciation and amortization	**222.8**	202.6	10.0%
Operating income	**147.3**	137.6	7.0%
Net income before unusual items	**68.7**	62.5	9.9%
Net income per share before unusual items	**$0.70**	$0.59	18.6%
Operations (including operations of C Corp. Inc.)			
Net sales	**5,956.2**	5,832.5	2.1%
Operating income	**150.5**	148.5	1.3%
Net income	**84.9**	38.8	118.8%
Financial position			
Total assets	**1,233.5**	1,193.5	3.4%
Total debt	**389.2**	390.3	−0.3%
Shareholders' equity	**313.6**	313.3	0.1%
Changes in financial position			
Cash from operating activities	**114.9**	126.8	−9.4%
Capital expenditures	**184.0**	171.4	7.4%
Per common share			
Net income before unusual items	**$0.71**	$0.63	12.7%
Net income	**0.87**	0.34	155.9%
Shareholders' equity	**3.27**	2.42	35.1%



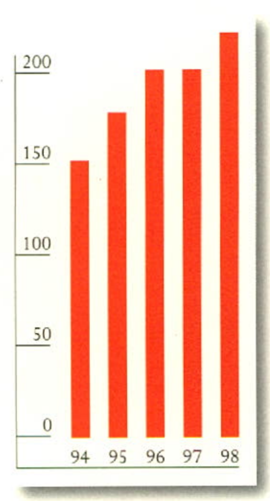
Net sales – Canada
(excluding C Corp. Inc.)
(billions of dollars)



Net income – Canada
(excluding C Corp. Inc.
and unusual items)
(millions of dollars)



Earnings per share (fully diluted) – Canada
(excluding C Corp. Inc.
and unusual items)
(dollars)



Operating income before depreciation and amortization – Canada
(excluding C Corp. Inc.)
(millions of dollars)

The Provigo network

As at January 31, 1998

Supermarkets and discount stores

Supermarkets

provigo

162 supermarkets

Quebec: 162
Corporate: 83
Franchises or affiliates: 79

Average area: 20,000 sq. ft.
35,000 sq. ft. (new stores)

LOEB

104 supermarkets

Quebec: 12
Ontario: 92
Corporate: 74
Franchises or affiliates: 30

Average area: 25,000 sq. ft.
35,000 sq. ft. (new stores)

Discount stores (corporate network)

maxi

70 discount stores

Quebec: 69
Ontario: 1

Average area: 36,000 sq. ft.
53,000 sq. ft. (new stores)

maxi & Co.

12 superstores

Quebec: 9
Ontario: 3

Average area: 82,000 sq. ft.

Wholesale operations

Affiliated banners

L'inter MARCHÉ, AXEP, dépanneur proprio, ATOUT-PRIX

Quebec: 655 retailers

Independent customers

Corporate Stores

L'ÉCONOME

Quebec: 4

Food Services

Dellixo

2,000 clients

Self-serve Stores

LES ENTREPÔTS PRESTO

Quebec: 24

LINC

Quebec: 1
Ontario: 17

Distribution centres

Supermarkets and discount stores

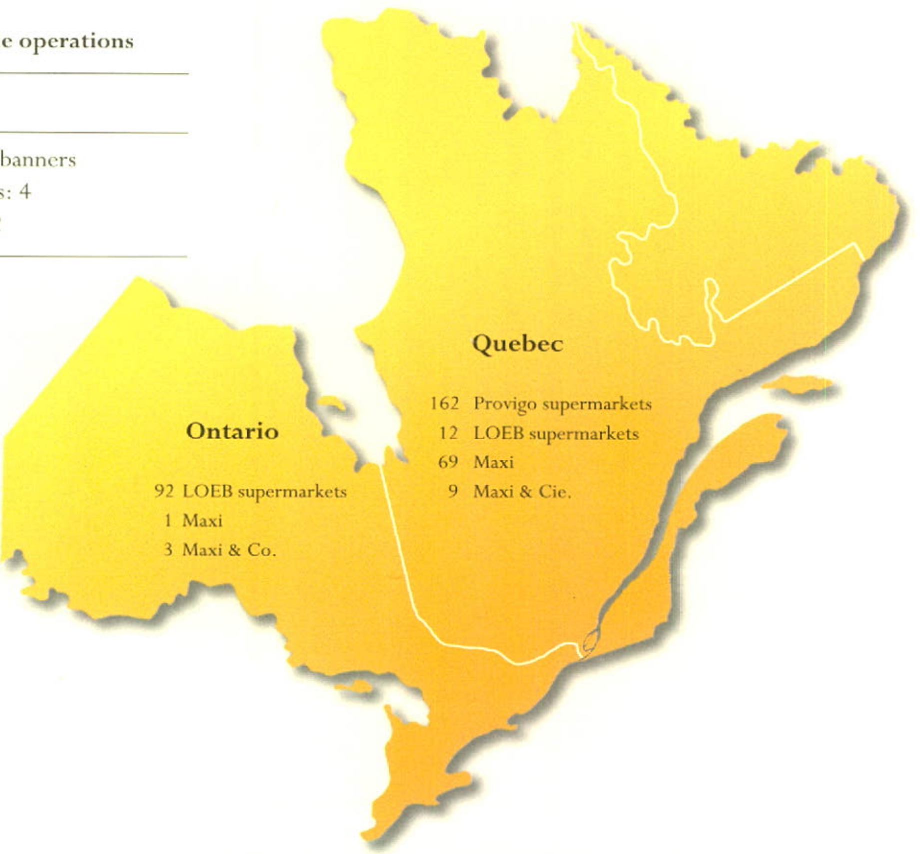
15 centres

Quebec: 9
Ontario: 6

Wholesale operations

6 centres

Affiliated banners
and others: 4
Dellixo: 2



Highlights of the year

1st quarter
ended April 19, 1997

An 8% increase in net income and a 2.6% increase in sales

$85 million redemption of first preferred shares, series 1

Opening of a Maxi store in the Montreal area and a LOEB supermarket in the Toronto region

Initiation of project to convert computer systems for the year 2000

2nd quarter
ended August 9, 1997

A 7.1% increase in net income and a 3.4% increase in sales[1]

Sale of C Corp. Inc. for $85 million

Opening of two Maxi & Co. superstores, one in Mississauga, Ontario, and the other in Gatineau, Quebec

3rd quarter
ended November 1, 1997

A 14.5% increase in net income and a 2.5% increase in sales[2]

During the opening of a LOEB supermarket in Mississauga, Ontario, launch of a supermarket concept featuring fresh produce and home meal replacements

Opening of two Provigo supermarkets, one in Montreal and the other in Belœil, Quebec

Opening of two Maxi & Co. superstores, one in Hull, Quebec and the other in Oakville, Ontario

Conversion of a LOEB supermarket in Cornwall, Ontario into a Maxi store

Conversion of a Maxi store into a Maxi & Co. superstore in Pointe-Claire, Quebec

4th quarter
ended January 31, 1998

A 9.4% increase in net income and a 11.7% increase in sales[2]

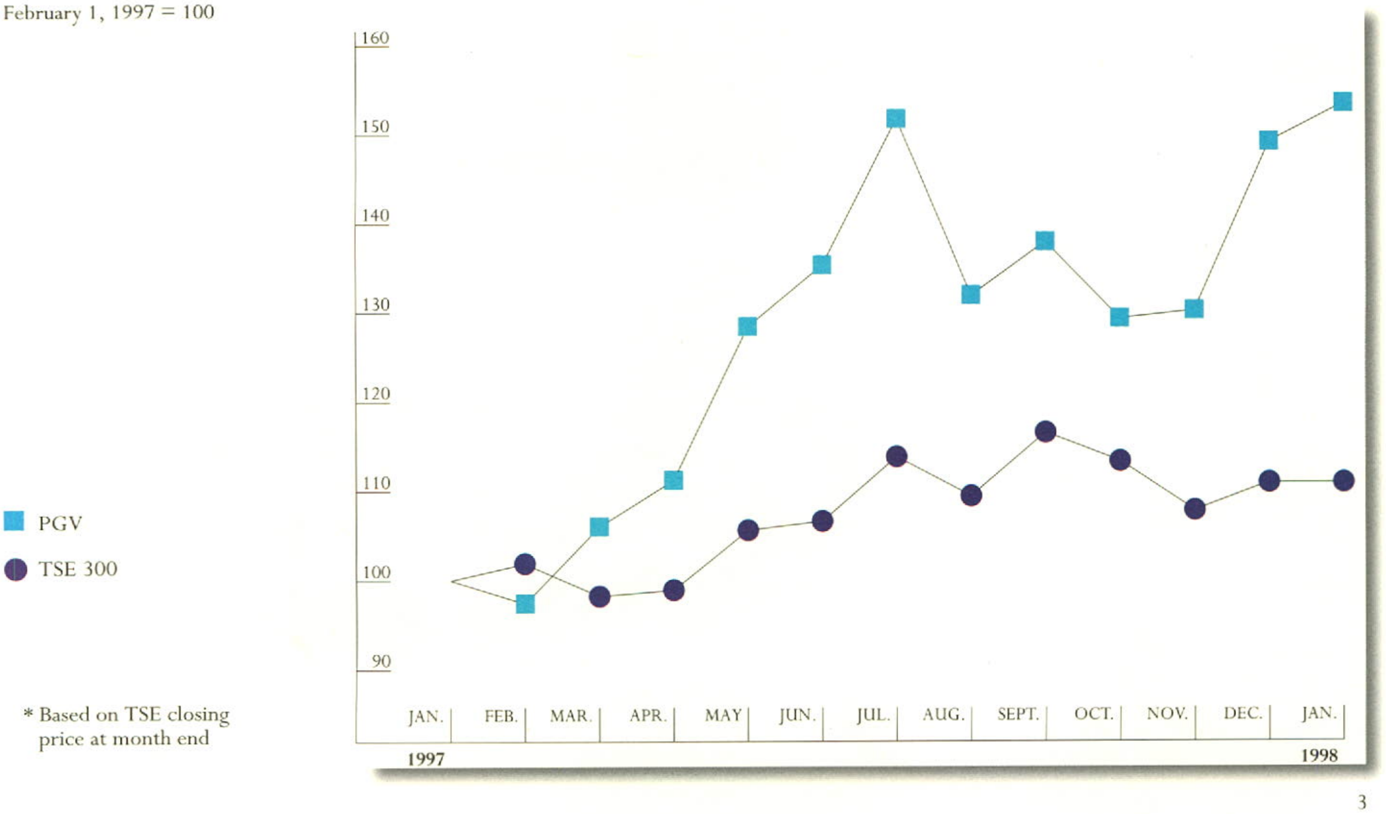
Conversion of a Maxi store in Jonquière, Quebec, into a Maxi & Co. superstore

Opening of a Maxi store in Beloeil, Quebec and two Maxi & Co. superstores, one in Montreal, Quebec, and the other in Scarborough, Ontario

[1] Excluding C Corp. Inc. and the non-recurring gain from the sale of this subsidiary.
[2] Excluding C Corp. Inc.

Comparative returns: Provigo (PGV)* vs TSE 300 index

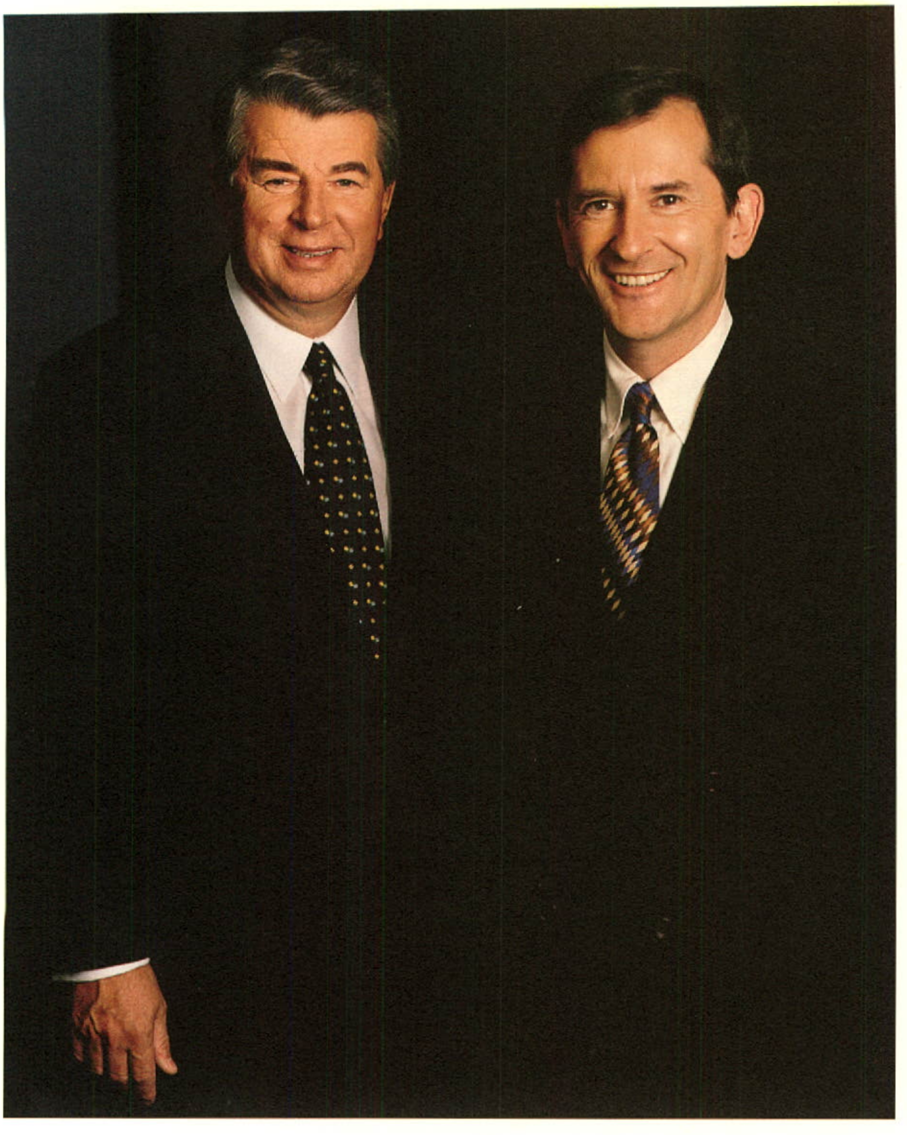
From February 1, 1997 to January 31, 1998
February 1, 1997 = 100



* Based on TSE closing price at month end

Message to shareholders

An excellent year for Provigo



Pierre Michaud Pierre L. Mignault

Results for fiscal 1998 demonstrate that we have successfully implemented our strategy these past four years. Net sales totaled $5.9 billion, an increase of 4.8% over the previous year and net income increased by 9.9% to a record high of $68.7 million, or $0.65 per share after dilution, excluding C Corp. Inc. and the unusual items linked to the sale of this subsidiary. We have completed our operational and financial restructuring and, with the support of our employees and all the retailers in our network, we have concentrated our efforts on our core retail expertise. We would like to thank our shareholders for their confidence in us while we were repositioning the Company. During this period, we made every effort to protect their investment. The financial community has reacted positively to the measures we have introduced to raise the Company's value over the long term. The share value has increased by over 53% in the twelve months ended January 31, 1998.

Our progress is the result of the following achievements:

- **We repositioned ourselves in the retail sector** with the introduction of a chain of superstores and a new supermarket concept focused on fresh produce and home meal replacement. During fiscal 1998, we opened 12 new stores and carried out 19 large-scale renovations in Quebec and Ontario. The total area of our retail stores increased by 8% during the year.

- **We analyzed our consumers' needs and consumer trends.** Consumer tastes and habits are changing much faster than they used to and have become an important strategic factor. The merchandising strategy used in Provigo and LOEB supermarkets as well as in the Maxi and Maxi & Co. discount stores is flexible and can adapt very quickly to change. For example, with consumer trends leaning more toward fresh produce, we decided to dedicate about 50% of the space in most of our supermarkets to these products. We are dedicating increased space to these products in our discount stores as well.
- **Our training programs** have been grouped together under the Provigo Academy. We now concentrate all our efforts in this area on our objective of increasing both customer satisfaction and productivity. During the past year, our programs focused specifically on merchandising and the logistics of our new "push" distribution system. Our total investment in training for fiscal 1998 amounted to $6.2 million, or 1.4% of our payroll.
- **Our management by category system and the conversion from "pull" to "push" distribution system** encouraged improved customer service, increased efficiency in our stores and in the overall performance of the Company. This conversion will gradually be reflected in our net income.

During fiscal 1999, we will continue our expansion in Ontario and Quebec, the conversion of our distribution system and the conversion of our computer systems for the year 2000.

We have developed an action plan that will put us in a better position to take advantage of the changes occurring in our industry. We will continue expanding our chain of discount stores in Quebec and in Ontario. In our supermarkets, we will support the introduction of our new fresh produce concept by relocating, expanding and renovating the Provigo and LOEB supermarkets. We will invest about $150 million, or 2.5% of total sales, to increase our sales area by some 7%.

By January 1999, we will be close to completing the conversion of the computerized distribution systems in our discount stores. This project includes an in-store perpetual inventory system, data warehouses as well as procurement and distribution software applications. Moreover, we are in the process of converting all our systems so they are fully functional on the first day of the year 2000. The process is already well underway and should be completed by the end of 1998.

We would like to thank our Directors for their involvement and support, and we would like to acknowledge Pierre Fortier, in particular, who has recently resigned from the Board. During his mandate, we benefited from Mr. Fortier's experience and high level of professionalism.

We would like to express our sincere gratitude to our retailers and employees for their continued commitment. Their initiatives have enabled us to achieve the best ever results in the history of Provigo. Our commitment remains the same: to continue to provide our customers with excellent services and to maximize shareholders' investment.

Pierre Michaud
Chairman of the Board

Pierre L. Mignault
President and Chief Executive Officer

Provigo and LOEB supermarkets

A new generation of Provigo and LOEB supermarkets was introduced last summer.

Depending on the location, the new supermarkets cover between 30,000 and 40,000 sq. ft., and focus primarily on fresh produce as well as meal solutions, including ready-to-consume, ready-to-cook and ready-to-assemble meals, niches we are pursuing vigorously. These products will occupy about 50% of the floor space in some stores, compared to the previous 30%. Provigo and LOEB supermarkets stock a wide variety of products to meet the needs of their customers. Fresh produce such as meats, fish, fruit and vegetables as well as products from the bakery, deli and dairy case, are presented in a way that makes shopping easy for the customer. All the Company's advertising, including the supermarket flyer, supports this new responsiveness to changing consumer needs. Eating habits have changed and today's time-pressed consumers want practical and top-quality choices as well as new ideas. Consumers also want a wide array of major national, private and local brand-name products from which to choose. This is what Provigo and LOEB supermarkets offer.

This year, there were several innovations in our two supermarket chains. Customers can now use credit cards to pay for their purchases and several new products have been added, including a wide variety of fresh and dried pastas, 30 cuts of "*Alberta's original grade AA beef*" and *The butcher's guarantee*, which certifies the meat is fresh and meets all standards. We have also introduced approximately 50 different types of top-quality coffee.

The Provigo and LOEB retailers' support of these new strategic orientations has given the Company the boost it needs to introduce the new supermarket concept. The professionalism and dedication of all our partners make Provigo a truly customer-oriented company.

WOW COFFEE

The "Wow" phenomenon is a very important tool in merchandising. It signifies that something original and exciting is underway. In November, Provigo and LOEB supermarkets designated coffee a WOW category by adding 50 new varieties of coffee to their usual selection. Gourmet coffee has become very popular and continues to be in high demand.

ORIGINAL ALBERTA BEEF

Beef lovers are now able to purchase 30 different cuts of "Original Alberta Beef", a fine, superior quality beef available exclusively at Provigo and LOEB supermarkets. The marbling of this perfectly aged beef gives it a unique flavour and makes it more tender, juicy and tasty.

NEW SUPERMARKET CONCEPT

A new supermarket concept geared towards meal solutions was unveiled in August at the opening of the Mississauga LOEB supermarket. About 50% of the store is allocated to fresh produce and meal solutions, up from the previous 30%. This new concept will be phased into other Provigo and LOEB supermarkets as well.

Maxi and Maxi & Co.

Maxi and Maxi & Co.: evolving and expanding

Two new stores joined the **Maxi** chain and a LOEB supermarket was converted into a Maxi superstore during fiscal 1998. In addition to some large-scale renovations, the new "fresh produce and ready-to-eat" concept was introduced to the chain. Since it was opened in September 1996, the **Maxi & Co.** concept has continued to be developed with excellent results; and its sales volumes and profit margin have continued to increase steadily. Six new Maxi & Co. superstores opened in 1997. Two were built in Quebec's Outaouais region (Gatineau and Hull), three in Ontario (Mississauga, Oakville and Scarborough) and one at the corner of Papineau street and Crémazie boulevard in Montreal. Another highlight of the year was the gradual introduction of the perpetual inventory system in more than half of the Maxi and Maxi & Co. stores. Both chains will actively pursue planned expansion projects in Quebec and in Ontario. In addition, two Maxi stores were expanded and converted into Maxi & Co. superstores in Jonquière and Pointe-Claire, Quebec.

Private brand

The private brand has been repositioned and will be known as *GENERATION - Our house brand.* Almost 1,000 private brand-name products are an integral part of the new supermarket concept. Offered by the Provigo, LOEB, Maxi and Maxi & Co. stores, they continued to be popular throughout the year. The goal of private branding is to build a loyal client base by introducing distinctive and attractive products with excellent quality-price ratios.

MAXI & CO. OPENS IN ONTARIO

Maxi & Co.'s success in Quebec prompted Provigo to launch the chain in Ontario. The first superstore opened in June in Mississauga, followed by a second in Oakville and a third in Scarborough. Several more Maxi & Co. superstores will open in Ontario during 1998 and 1999.

A NEW LOOK FOR THE PRIVATE BRAND

Experiences and *Generation Zel* private brands will gradually disappear over the next year to make room for *GENERATION, our house brand.* The new logo will make the transition easier for consumers and standardize the image of all Provigo house products.

GENERATION
Our house brand
Notre marque maison

PASTA EXPERTS

In February 1997, pasta was selected to become a WOW category because of its popularity, nutritional value, wide variety and affordability. Our stores now carry a large selection of pasta, including traditional, imported, flavoured, plain as well as exclusive brand-name pastas.

Wholesale operations

Provigo is proud to serve a number of networks of independent grocers, some active under affiliated banners, as well as small and medium-sized businesses in the restaurant and hotel sector, institutions, general merchandise distribution chains and convenience stores operated by major oil companies.

Affiliated banners and independent customers

As at January 31, 1998, Provigo was serving 655 stores under the L'Intermarché, Axep, Proprio and Atout-Prix banners. A new merchandising plan for these outlets was undertaken during the year. Similarly, L'Intermarché adopted the slogan, "Le supermarché qu'on choisit [the supermarket of choice]" as a means of emphasizing the quality of its product mix featuring fresh fruit, vegetables, meat, cheese and bakery products. In the upcoming fiscal year, L'Intermarché will celebrate its tenth anniversary. It is successfully maintaining its international concept, which effectively meets its customers' needs with products from around the world.

Dellixo food services

Dellixo's target market is large restaurant chains and hotels. In this highly competitive environment, Dellixo is repositioning itself to optimize service and to increase sales and profitability. The new strategy focuses on a "one-stop-shopping" approach that offers its 2,000 customers the largest possible range of products, including dairy products and fresh produce. This new direction will necessitate the modernization of its warehouses with the construction of a refrigerated loading bay and the updating of its trucking fleet. The new trucks, which have been in service since March 1998, are equipped with state-of-the-art refrigeration systems.

Presto and Linc cash-and-carry stores

The Presto and Linc networks include 42 stores in Quebec and Ontario, and offer cash-and-carry service to numerous small and medium-sized customers in the restaurant and hotel sectors as well as to a network of convenience stores. The Presto and Linc networks have maintained their strategy of everyday low prices and experienced very satisfactory growth in sales during the previous fiscal year. On March 2, 1998, a new Presto store was opened in Dollard-des-Ormeaux.

Supply and distribution

New state-of-the-art distribution system for greater efficiency, better service and stronger performance

Provigo is the first retail grocery distribution company in Canada to convert its distribution system from a "pull system" to a "push system." Unlike the "pull system" that keeps inventory in the warehouse for about two weeks until it is pulled through the system and sold to a customer, the push system eliminates or significantly reduces inventory, inventory loss and handling operations. This system frees store employees from some logistical tasks so that they can better concentrate on serving their customers and merchandising. Provigo made this strategic decision, which will transform its entire distribution operation into a state-of-the-art system, with its future performance in mind. It has given itself a significant lead by setting up a perpetual in-store inventory system and a central data warehouse, two key components to which it is firmly committed. The introduction of the "push system" is proceeding smoothly without interrupting everyday operations.

The perpetual inventory system is the nucleus of the push system. The perpetual inventory system continuously records the movement of each product from the moment it arrives in the store until it leaves. Using radiofrequency technology to accurately gather data from the receiving and sales areas, this system makes it possible to establish, at any time, the specific product profile, quantities received and available, losses, returns and sales.

The data warehouse centralizes all the data gathered by the retail outlet systems. It has the advantage of allowing users to access this information interactively and rapidly, without hampering the operations of the entire distribution logistics system.

Main procurement and distribution softwares

The procurement software includes a forecast function. It processes supply data provided daily by the perpetual inventory system. In operation since the fall of 1997, this software has significantly improved the efficiency and productivity of supply and has optimized the marketing of products.

The distribution management software will be used in Provigo's various distribution centres, which will become transit points for merchandise. This software systematizes logistical operations for the dispatch of orders. It means that specific orders can be shipped to each store increasing productivity.

The switch to supply and distribution management software coupled with the introduction of the perpetual inventory system will be completed in Maxi and Maxi & Co. stores over the next year.

Human resources

Provigo's human resources enable the Company to maintain a distinct advantage within its industry.

Training

Creation of the Provigo Academy

The Provigo Academy was created in May 1997 to better focus Company training efforts to enhance performance and meet quality service objectives. Training is provided by in-house specialists and through collaborative projects with teaching institutions. For example, the Provigo Academy is offering college and university students in their final year of study an introduction-to-management program. This program in an industry first, will last about two years, and will give students subsequent access to management positions in stores.

The Company invested over \$6.2 million, or 1.4% of its total payroll, in training activities. Among the Company's initiatives to encourage training and professional exchanges, Provigo granted about 15 scholarships during the year and launched an international work exchange program for its retail employees.

Recruiting and hiring

Again this year, Provigo was actively involved in the job market. It recruited approximately 2,000 employees to meet the needs of the expansion program carried out during the fiscal year.

Labour relations

In May 1997, Provigo signed a long-term partnership agreement with the United Food and Commercial Workers International Union (UFCW). This innovative agreement provides unionized employees attractive benefits and working conditions along with increased flexibility in organizing work and cost control.

Management of workplace health and safety

Provigo is recognized for its progressive approach to health and safety management. The steadily decreasing number of accidents is evidence that Provigo is achieving excellent results.

Share purchase program

Provigo has entered into a new form of partnership with its employees by introducing a program under which they can acquire Provigo shares within their retirement savings plan. For every ten shares acquired, Provigo gives one share to the employee shareholder.

Environment

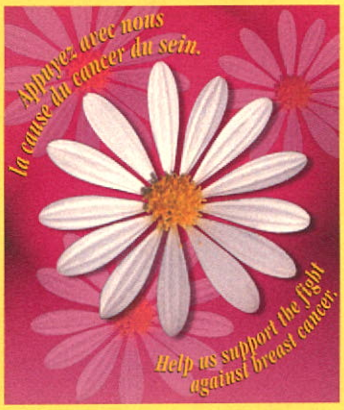
Introduction of integrated management

During the year, all Provigo employees were made aware of the Company's environmental protection policy. This measure led to the implementation of the environmental management system, whose goal is the structured integration of all environmental programs into Company activities. During the development of this system, measures introduced in recent years were fully reviewed in order to assess their strengths and weaknesses.

The environmental management system covers the replacement of tanks, control of high-risk activities, elimination of substances that could damage the ozone layer, energy conservation, integrated waste management (recovery, recycling and composting), hazardous waste management and environmental assessment of sites.

BREAST CANCER

In May, Provigo announced its five-year commitment to breast cancer. Apart from a direct donation, Provigo plans to organize fund-raising activities and to sponsor various projects. The campaign kicked off during the Mother's Day week during which $1 of every purchase of cut flowers was donated to the cause.



JOB FAIRS

Provigo organized 11 Job fairs, each of which attracted up to 2,000 applicants. This method of recruitment is effective because it gives a large number of candidates a view of the Company and its opportunities while at the same time gathering all applicants together at once.

PROVIGO ACADEMY

The creation of the Provigo Academy confirms the importance the Company devotes to training. The Academy oversees all in-house training programs. During the year, the Company invested $6.2 million, or 1.4% of its payroll, in training.

Social responsibility

Community commitment is an integral part of Provigo's mission. The Company is active in many Quebec and Ontario communities in humanitarian causes actively supported by its employees.

Help to ice storm victims: ongoing support to afflicted communities, food banks and humanitarian agencies in collaboration with suppliers. From the beginning of the ice storm and in the three weeks that followed, Provigo came to the assistance of storm victims with donations of food, equipment loans, and the transport of merchandise to communities in southwestern Quebec and eastern Ontario, while maintaining constant contact with civil authorities. The Company donated several thousand cases of food and nearly half a million loaves of bread to storm-ravaged communities, emergency shelters and food distribution centres set up by civil authorities. Numerous volunteers served hot drinks to storm victims on board "Autobouffe Provigo" vehicles. An operation to collect public donations of non-perishable goods in Provigo, Maxi and LOEB stores in Quebec was a great success and yielded a significant amount of food that was distributed to people in hard-hit areas.

Many private citizens, mayors and humanitarian organizations who received this support sent heartfelt messages of gratitude to the Company. Provigo would like to thank all retailers and employees, whose initiative and dedication brought tangible and welcome relief to storm victims.

Breast cancer

During fiscal 1998, Provigo made a commitment to support breast cancer research for a period of five years. The money raised during this period will be donated to the most active and best-known centres in Montreal, Quebec City, Ottawa and Toronto. This commitment will take the form of a direct donation, fund-raising activities organized by the stores, sponsorships by the chains, programs on breast cancer diagnosis and the organization of network-wide in-store information sessions with trained volunteers.

Centraide/United Way, health and education, special sponsorships

Provigo and its employees collected \$325,000 for the Centraide/United Way campaign during fiscal 1998. In addition to this contribution, the four

"Autobouffe Provigo" vehicles raised \$110,000 for local organizations.

During this fiscal year, the Company also upheld its commitment to various health, educational, cultural and community organizations. Provigo expects to contribute close to \$1.5 million in direct donations to these organizations over the next four years.

Gifts in kind

Provigo and all of its stores provide ongoing support to food banks as well as other organizations that provide meals and food to disadvantaged people. It maintains continuing contact with these organizations in Quebec and Ontario communities and supplies them with both fresh and non-perishable goods.

Contribution to community

Provigo's contribution to community well-being goes well beyond its donations and the dedication and generosity of its retailers and employees. In all of its operations, the Company provides work for about 37,500 people. In fiscal 1998, it injected \$95 million into the community in business taxes, GST and other taxes. It purchased goods and services valued at \$5.2 billion, nearly 80% of which came from suppliers in Quebec. New stores and other capital investments were valued at \$184 million.

Provigo's financial results for the year ended January 31, 1998 reflect the strategic orientations in its business plan.

Strategic orientations

The dividing lines between traditionally distinct retail channels are becoming increasingly blurred. For many years now, food stores have been under attack by new store formats offering an increasingly wide array of food and related products. Provigo's response has been to develop the Maxi & Co. concept which combines frequently-purchased consumer goods and groceries under the same roof. The first Maxi & Co. store was opened in Montreal in September 1996 and the concept has met with very favourable customer acceptance. Provigo began to roll out the concept this year. There were 12 Maxi & Co. stores at year-end.

Today's time-pressed consumer is increasingly looking for ways to simplify the meal preparation process. Accordingly, Provigo has developed a new supermarket concept focusing on fresh products and ready-to-eat or ready-to-cook meals. The fresh product departments are located at the store entrance and occupy 50 percent of the store rather than 30 percent as in a conventional supermarket. This new concept was launched in August 1997 at LOEB's Derry Road supermarket in Mississauga and will be gradually incorporated into other Provigo and LOEB supermarkets.

As part of its expansion strategy, Provigo is penetrating new geographic markets. Provigo's primary vehicle in these new markets will be the Maxi & Co. discount store. The first Maxi & Co. store in Ontario was opened in Mississauga in June 1997. At year-end, there were three Maxi & Co. stores in Ontario. Provigo intends to increase significantly its presence in this market.

The retail concepts should be supported by efficient, low-cost distribution and support systems. To this end, Provigo has developed a new perpetual inventory system which is being rolled out throughout the Maxi and Maxi & Co. network. In the short term, this should result in tighter inventory control. In the medium term, as the next phases of the project are implemented, further benefits will accrue: reduction of inventory levels in the distribution centres; reduction of handling and warehousing costs thanks to cross-docking; and reduction of back-office costs thanks to a reduction in the volume of transactions to be processed.

Supermarkets and discount stores
(number of stores)

	Provigo and LOEB supermarkets		Discount stores		
	Corporate	Franchised and affiliated	Maxi	Maxi & Co.	Total
Beginning of year	144	126	69	4	343
Opened	4		2	6	12
Closed or left the program	(1)	(6)			(7)
Category change	10	(11)	(1)	2	
End of year	157	109	70	12	348

Operational developments

Provigo's operations may be analyzed into two groups. One group comprises the Provigo and LOEB full-service supermarkets as well as the Maxi and Maxi & Co. discount stores. The network of Provigo and LOEB supermarkets consists of a mix of corporate, franchised and affiliated stores. All the Maxi and Maxi & Co. discount stores are corporate.

The second group includes wholesale operations which consist in supplying a network of smaller affiliated stores under the L'Intermarché, Axep, Proprio and Atout-Prix banners. It also includes the cash-and-carry stores operated by the Company under the Presto and Linc banners. In addition, this group includes the Dellixo division which operates in food services. C Corp. Inc., the convenience store subsidiary, was sold during the year.

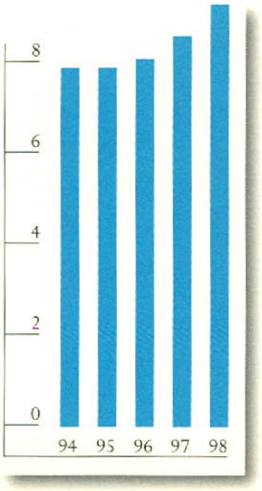
Supermarket and discount store group

The above table illustrates the evolution in the network of stores during the year. There were 348 stores in the network at the end of the year, five more than at the beginning. Two hundred and fifty-two of the stores were in Quebec and 96 in Ontario.

Provigo opened 12 stores during the year. These consisted of six Maxi & Co. stores, of which three were in Quebec and three in Ontario; two Maxi stores in Quebec; two Provigo supermarkets in Quebec; and two LOEB supermarkets in Ontario.

Two Maxi stores were converted into Maxi & Co. stores and one LOEB supermarket into a Maxi store. Eleven franchised or affiliated supermarkets became corporate and seven supermarkets were closed or went off the Company's programs. Overall, 19 stores were renovated, of which nine were Provigo supermarkets, five LOEB supermarkets and five Maxi discount stores.

The net impact of the store openings, closures, departures and renovations was to increase the network's square footage by more than 700,000 square feet or 8 percent. The total square footage at the end of the year was close to 9,300,000 square feet.



Retail square footage – supermarkets and discount stores
(millions of square feet)

Results of operations
(millions of dollars, except for EPS)

	Net sales		Operating income		Net income	
	This year	Last year	This year	Last year	This year	Last year
Supermarkets and discount stores	**4,612.9**	4,397.6	**135.6**	125.6		
Wholesale operations, cash-and-carry stores and food service operations	**1,259.4**	1,207.5	**11.7**	12.0		
Total excluding C Corp. Inc. and unusual items	**5,872.3**	5,605.1	**147.3**	137.6	**68.7**	62.5
C Corp. Inc.	**83.9**	227.4	**3.2**	10.9	**1.1**	3.8
Total excluding unusual items					**69.8**	66.3
Unusual items					**15.1**	(27.5)
Grand total	**5,956.2**	5,832.5	**150.5**	148.5	**84.9**	38.8
Earnings per common share						
Excluding C Corp. Inc. and unusual items						
Basic					**$0.70**	$0.59
Fully diluted					**$0.65**	$0.53
Excluding unusual items						
Basic					**$0.71**	$0.63
Fully diluted					**$0.66**	$0.57
Overall						
Basic					**$0.87**	$0.34
Fully diluted					**$0.80**	$0.32

Next year's capital expenditure program includes several new stores in both Quebec and Ontario. Most of the new stores will carry the Maxi & Co. banner. In addition, a major store renovation program is planned, particularly in those markets where new entrants are expected. Several dozen stores will be expanded or renovated, including the incorporation into Provigo and LOEB supermarkets of the new concept focusing on fresh products.

Wholesale group

In May 1997, Provigo closed the sale of C Corp. Inc., its convenience store subsidiary, to Alimentation Couche-Tard Inc. for a cash consideration of $85 million. The decision to sell C Corp. Inc. is in keeping with Provigo's business plan and will allow the Company to focus more of its efforts on the development of its network of supermarkets and discount stores. The transaction resulted in an unusual gain of $15.1 million. Provigo will continue to supply C Corp. Inc.'s Provi-Soir stores in Quebec under a long-term contract.

Following a revaluation of its concepts, the wholesale group decided to discontinue the Jovi banner at the beginning of the year. Over time, the banner had lost its focus and it was no longer meeting a consumer need. Consequently, most of the stores under that banner now carry more appropriate banners such as Axep, Proprio and Atout-Prix. The exercise was successful and most stores experienced a sales increase following the changeover.

Results of operations

In making year-over-year comparisons, it should be noted that fiscal 1998 comprised 53 weeks, compared with 52 weeks in the previous year.

Net sales amounted to $5,956.2 million, or 2.1 percent better than in the previous year. After allowing for the disposal of C Corp. Inc., sales increased by 4.8 percent.

In the supermarket and discount store group, net sales increased by 4.9 percent to $4,612.9 million. Sales increased at the Provigo supermarkets and the Maxi and Maxi & Co. discount stores because of new store openings together with an improvement in same-store sales. The LOEB supermarkets continued to experience an extremely competitive environment, with resulting pressures on sales.

Retail sales (sales made by corporate stores) continued to gain in importance relative to wholesale sales (sales to franchised and affiliated stores as well as to independent customers). In fiscal 1998, retail sales accounted for 77 percent of the supermarket and discount store group's total sales, up from 66 percent in the previous year. Wholesale sales accounted for the remaining 23 percent, compared with 34 percent a year earlier.

In the wholesale group, net sales increased by 4.3 percent to $1,259.4 million. The increase is primarily due to a strong performance by the Presto and Linc cash-and-carry stores.

Excluding C Corp. Inc., operating income before depreciation and amortization increased by 10.0 percent to $222.8 million, compared with $202.6 million in the previous year. Excluding C Corp. Inc., the operating margin (operating income before depreciation and amortization expressed as a percentage of sales) was 3.79 percent this year, compared with 3.61 percent last year. The increase in the operating margin is primarily attributable to tighter inventory control and to efficiency gains at store level as well as in distribution and in support functions.

Depreciation and amortization increased by 9.4 percent to $77.6 million. The increase is due to the large capital expenditure program of the past two years. Provigo's major store construction and modernization program, together with the development of new systems, are vital for the Company's future growth.

Excluding C Corp. Inc., operating income increased by 7.0 percent to $147.3 million (2.51 percent of sales), compared with $137.6 million (2.45 percent of sales) in the previous year. In the supermarket and discount store group, operating income increased by 8.0 percent to $135.6 million. In the wholesale group, operating income decreased slightly by 2.5 percent to $11.7 million.

The gross interest expense for the year amounted to $38.7 million, or $1.8 million lower than in the previous year. This decrease is the net result of a $6.2 million decrease attributable to lower interest rates, a $3.7 million increase arising from a higher level of average debt and a $0.7 million increase attributable to the additional week. After deducting interest income of $3.1 million and capitalized interest of $2.5 million, the net interest expense was $33.1 million, compared with $33.3 million in the previous year.

The year's results include an unusual gain of $15.1 million net of taxes on the disposal of C Corp. Inc. In the previous year, there were unusual losses totalling $27.5 million net of taxes.

The effective income tax rate was 35.9 percent, compared with the Canadian statutory tax rate of 38.5 percent. The difference is mostly due to the non-taxable gain on the sale of C Corp. Inc.

The net income for the year was $84.9 million, up from $38.8 million in the previous year. Excluding C Corp. Inc. and unusual items, net income increased by 9.9 percent to $68.7 million, compared with $62.5 million a year earlier.

Basic earnings per share were $0.87, compared with $0.34 in the previous year. Excluding C Corp. Inc. and unusual items, basic earnings per share increased by 18.6 percent to $0.70, compared with $0.59 in the previous year.

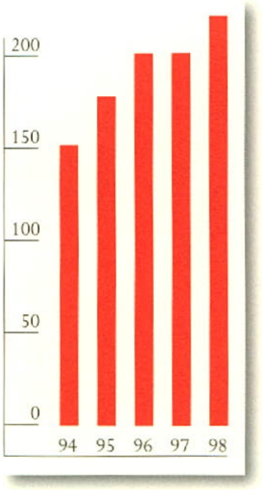
Fully diluted earnings per share amounted to $0.80, compared with $0.32 a year earlier. Excluding C Corp. Inc. and unusual items, fully diluted earnings per share increased by 22.6 percent to $0.65, compared with $0.53 a year earlier.

Liquidity and capital resources

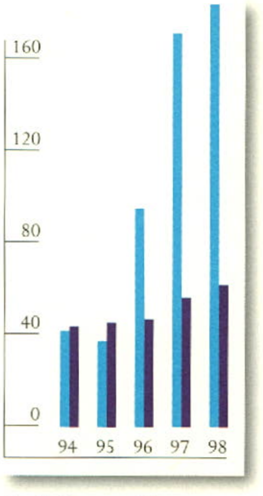
During the year, operating activities generated a cash flow of $114.9 million, compared with $126.8 million in the previous year. The cash flow from operations served to finance the investing activities, which consisted mainly of capital expenditures.

Provigo continued the implementation of its development plan aimed at expanding and modernizing its store network. In fiscal 1998, capital expenditures amounted to $184.0 million, compared with $171.4 million in the previous year. Besides the store openings and renovations described earlier, this year's capital expenditures included improvements to the distribution centres and investments in information technology. The capital expenditure budget for next year amounts to approximately $150 million.

In April 1997, Provigo redeemed at maturity its cumulative first preferred shares, series 1, for $85 million. This was financed by the proceeds of $85 million from the sale of C Corp. Inc. Dividends for the year on the preferred shares up to the date of redemption amounted to $1.9 million.

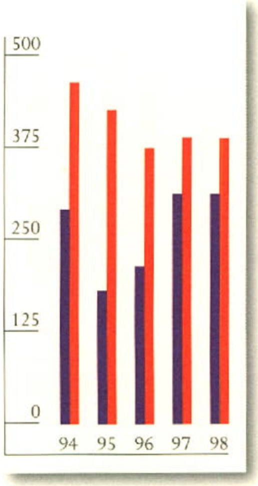


Operating income before depreciation and amortization – Canada
(excluding C Corp. Inc.)
(millions of dollars)



Capital expenditures and depreciation – Canada
(millions of dollars)

Capital expenditures
Depreciation



Equity and total debt
(millions of dollars)

■ Equity
■ Total debt

During the year, the Company issued 390,855 common shares under its employee stock purchase plan and its stock option plan for a cash consideration of $2.9 million.

The total debt at the end of the year was very nearly the same as at the beginning. The total debt stood at $389.2 million at year-end, compared with $390.3 million a year earlier.

The Company uses a mix of fixed-rate debt and floating-rate debt. Fixed-rate debt comprises mainly debentures. In May 1997, Dominion Bond Rating Service upgraded its rating of Provigo's debentures from BBB(low) to BBB. This rating was confirmed in February 1998. The debentures are rated B++ by Canadian Bond Rating Service. At year-end, fixed-rate debt represented 95 percent of the total debt, compared with 90 percent a year earlier.

In September 1997, Provigo redeemed at maturity the series 1987-A debentures, amounting to $75 million and bearing interest at 10.8 percent per annum. The redemption was financed out of the proceeds of the issue in May 1996 of the series 1996 debentures, amounting to $125 million and bearing interest at 8.7 percent per annum.

In December 1997, Provigo took advantage of the low prevailing interest rates and issued $100 million of series 1997 debentures, bearing interest at 6.35 percent per annum. The debentures are non-convertible and unsecured and mature in 2004. Provigo applied the proceeds of the issue towards the reduction of its non-convertible floating-rate debt.

Floating-rate debt consists mainly of convertible promissory notes and bank debt. Provigo has with its banking group a committed long-term facility amounting to $250 million, of which $11.1 million were used at year-end. The average cost of floating-rate debt was 4.2 percent during the year, compared with 5.7 percent in the previous year.

The issue of new debenture series at lower interest rates than the series which have been redeemed, together with the decline in the cost of floating-rate debt, have enabled the Company to reduce its overall cost of debt. The average cost of the total debt was 8.7 percent for the year, compared with 10.1 percent in the previous year.

The total debt to equity ratio stood at 55:45 at year-end, the same as a year earlier.

Risks and uncertainties

The Canadian food industry is evolving fast. On the supply side, food companies increasingly have to compete against new store formats. In addition, U.S. competitors are entering the Canadian market and Canadian competitors are expanding outside of their traditional markets. On the demand side, the consumer is becoming ever more demanding in terms of value, quality and convenience. Provigo's business planning process is designed to enable the Company to anticipate and respond to new developments in its competitive environment.

Following an evaluation of its computer systems, Provigo has concluded that most of its applications will require conversion to accommodate the passage to year 2000. Management has assigned the highest priority to this project. A detailed implementation schedule has been drawn up and a team consisting of both internal and external resources has been dedicated to the project. Provigo expects that all of the conversions, including testing, will be completed in 1998, which will provide the Company with enough time to make any necessary adjustments in 1999. The project cost is estimated at approximately $10 million, of which more than $2 million have already been incurred. Costs which enhance the service potential of the systems are capitalized and depreciated over periods of up to five years. Costs which maintain the service potential of the systems are expensed.

Outlook

Provigo is making progress on all fronts. On the revenue side, the innovative Maxi & Co. concept has met with very favourable consumer acceptance. As our development plan progresses, this banner's contribution to our growth will become more and more pronounced. On the cost side, system improvements are under way and will gradually reduce our operating costs.

On the financial side, the redemption of the first preferred shares, series 1, and the issue of new debentures at favourable interest rates have reduced our cost of capital. Our financial condition is improving and provides us with all the required flexibility to pursue our expansion plans.

Roland Harel
Executive Vice-President
and Chief Financial Officer

Management's responsibility for financial information

Year ended January 31, 1998

The consolidated financial statements of Provigo Inc. are the responsibility of management and have been approved by the Board of Directors. This responsibility includes the selection of appropriate accounting principles and the exercise of careful judgement in establishing reasonable and accurate estimates in accordance with generally accepted accounting principles appropriate in the circumstances. In addition, the financial information shown elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

The management of Provigo Inc. and its subsidiaries has developed and maintains accounting systems and internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the financial records are reliable for the preparation of the financial statements.

The Board of Directors carries out its responsibility with regards to the consolidated financial statements primarily through its Audit Committee, consisting solely of outside directors. The Audit Committee meets periodically with the external auditors, internal auditors and management to discuss accounting policies and practices, internal control systems, the scope of the annual audit, the internal audit function, the environmental situation and other matters. The management's selection of external auditors is recommended to the Board of Directors by this Committee. The external auditors and the internal auditors have direct access to the Committee to discuss the results of their audits and any recommendations they have for improvements in internal controls, the quality of financial reporting and any other matters of interest. The Committee reviews the Company's annual consolidated financial statements before recommending them to the Board of Directors for approval. It also reviews the Annual Information Form before it is filed with the securities and exchange commissions. During the year ended January 31, 1998, the members of the Audit Committee had five meetings.

These consolidated financial statements have been audited by Raymond, Chabot, Martin, Paré, Chartered Accountants and their report stating the scope of their audit and their opinion on the consolidated financial statements is presented below.

Pierre L. Mignault
President and Chief Executive Officer

Roland Harel
Executive Vice-President and
Chief Financial Officer

March 13, 1998

Auditors' report

To the Shareholders of Provigo Inc.

We have audited the consolidated balance sheets of Provigo Inc. as at January 31, 1998 and January 25, 1997 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1998 and January 25, 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Raymond, Chabot, Martin, Paré
General Partnership
Chartered Accountants

Montreal, Canada
March 13, 1998

Consolidated statement of income

Years ended January 31, 1998 and January 25, 1997

Millions of dollars, except earnings per share	1998 (53 weeks)	1997 (52 weeks)
Net sales	**5,956.2**	5,832.5
Cost of sales	**4,824.4**	4,778.2
Operating and administrative expenses	**903.7**	834.9
Operating income before depreciation and amortization	**228.1**	219.4
Depreciation and amortization (note 2)	**77.6**	70.9
Operating income	**150.5**	148.5
Interest – net (note 3)	**33.1**	33.3
Unusual items (note 4)	**(15.1)**	29.1
Income before income taxes	**132.5**	86.1
Income taxes (note 5)	**47.6**	47.3
Net income	**84.9**	38.8
Net income attributable to:		
Preferred shares	**1.9**	6.8
Common shares	**83.0**	32.0
	84.9	38.8
Earnings per common share:		
basic	**$0.87**	$0.34
fully diluted	**$0.80**	$0.32
Weighted average number of common shares outstanding (in thousands)	**95,663**	94,397

Consolidated statement of retained earnings

Years ended January 31, 1998 and January 25, 1997

Millions of dollars	1998 (53 weeks)	1997 (52 weeks)
Retained earnings, beginning of year		
As previously reported	**38.1**	13.8
Change in accounting presentation (note 1)	–	(5.4)
As restated	**38.1**	8.4
Net income	**84.9**	38.8
Dividends paid	**(1.9)**	(6.8)
First preferred shares, series 1, redeemed, including income taxes (note 14)	**(2.7)**	–
Share purchase warrants expired, net of related income taxes (note 14)	**1.0**	–
Share issue costs (note 14)	–	(1.9)
Tax related to dividends on first preferred shares, series 1	–	(0.4)
Retained earnings, end of year	**119.4**	38.1

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheet

January 31, 1998 and January 25, 1997

Millions of dollars	1998	1997
ASSETS		
Current assets		
Cash and deposit certificates (note 6)	**17.4**	43.0
Receivables	**184.0**	145.0
Inventories	**273.5**	260.7
Prepaid expenses	**14.5**	15.2
	489.4	463.9
Other assets		
Investments and long-term receivables (note 7)	**19.8**	20.9
Fixed assets (note 8)	**571.1**	541.7
Sundry assets (note 9)	**153.2**	167.0
	744.1	729.6
	1,233.5	1,193.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Cheques issued and outstanding	**35.9**	14.8
Payables and accrued liabilities	**440.9**	429.9
Income and other taxes	**53.9**	45.2
Current portion of long-term debt and obligations under capital leases	**3.7**	78.9
	534.4	568.8
Other liabilities		
Non-convertible long-term debt (note 11)	**325.0**	244.5
Convertible promissory notes (note 12)	**20.0**	20.0
Obligations under capital leases (note 13)	**40.5**	46.9
	385.5	311.4
Shareholders' equity		
Capital stock (note 14)	**188.8**	269.8
Other paid-in capital (note 1)	**5.4**	5.4
Retained earnings	**119.4**	38.1
Shareholders' equity	**313.6**	313.3
	1,233.5	1,193.5

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board,

Pierre Michaud

Richard Drouin

Consolidated statement of changes in financial position

Years ended January 31, 1998 and January 25, 1997

Millions of dollars	1998 (53 weeks)	1997 (52 weeks)
Operating activities		
Net income	**84.9**	38.8
Non-cash items (note 16)	**73.0**	74.4
Working capital provided by operating activities	**157.9**	113.2
Changes in non-cash working capital items (note 17)	**(43.0)**	13.6
Total cash provided by operating activities	**114.9**	126.8
Investing activities		
Investments and long-term receivables	**(8.2)**	(9.4)
Realization of investments and long-term receivables	**5.8**	28.5
Acquisition of fixed assets	**(184.0)**	(171.4)
Sale of fixed assets	**32.8**	3.8
Increase in sundry assets	**(12.8)**	(24.7)
Proceeds on sale of a subsidiary (note 4)	**85.0**	–
Total cash used for investing activities	**(81.4)**	(173.2)
Financing activities		
Long-term debt – Increase	**275.6**	145.8
– Reimbursement	**(270.7)**	(130.6)
Capital stock – Issued	**2.9**	69.2
– Redeemed	**(85.0)**	–
Share issue costs	**–**	(1.9)
Other sources of financing	**(1.1)**	(1.5)
Total cash provided by (used for) financing activities	**(78.3)**	81.0
Dividend payments		
Preferred shares	**(1.9)**	(6.8)
Total cash used for dividend payments	**(1.9)**	(6.8)
Cash and cash equivalents (deficiency)		
Net increase (decrease) for the year	**(46.7)**	27.8
Beginning of year	**28.2**	0.4
End of year	**(18.5)**	28.2

Cash and cash equivalents (deficiency) consist of cash and deposit certificates, less cheques issued and outstanding.

The summary of significant accounting policies and the accompanying notes are an integral part of the consolidated financial statements.

Summary of significant accounting policies

Years ended January 31, 1998 and January 25, 1997

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. In preparing these financial statements, management is required to make estimates and assumptions. In management's opinion, the financial statements have been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation The consolidated financial statements include the accounts of Provigo Inc. and its subsidiary companies. All subsidiaries of the Company are wholly-owned.

Foreign currencies Foreign denominated monetary assets and liabilities are translated at the year-end exchange rate. Foreign denominated non-monetary assets are translated at the exchange rate in effect at the transaction date. Revenues and expenses are translated at the average exchange rate for the year. Foreign exchange gains and losses arising from translation are included in the consolidated statement of income.

Store opening and closing costs Costs associated with the opening of new stores are expensed in the year incurred. When a decision to close a store is taken, the remaining investment in equipment and leasehold improvements in excess of their net recoverable value, and any remaining liability under the leases of the closed stores, net of expected sublease recoveries, are charged to income. Other estimated expenses directly associated with the store closure are also expensed.

Earnings per share Earnings per common share have been calculated based on net income less dividends on preferred shares, using the weighted average number of shares outstanding during the year.

Fully diluted earnings per common share have been calculated assuming that the convertible promissory notes, common share options, common share purchase warrants and preferred shares outstanding at the end of the year have been converted to common shares or exercised at the later of the beginning of the year or the date of issuance.

Deposit certificates Deposit certificates consist of liquid short-term investments that are readily convertible into cash.

Inventories Inventories are valued at the lower of cost, generally determined on a first-in, first-out basis, and net realizable value.

Investments and long-term receivables Investments are carried at cost. In the event of a decline in value which is considered to be other than temporary, the investment is written down to its estimated realizable value and the loss is charged to income.

Long-term receivables consist principally of long-term credit extended to franchisees or affiliates to be used primarily for the financing of new stores or store renovations. These receivables are recorded net of provisions for losses on doubtful accounts.

Fixed assets Fixed assets are stated at cost, including interest capitalized during construction, less accumulated depreciation. Major store expansions, renovations and improvements are charged to the appropriate fixed asset accounts. The costs of repairs and maintenance which do not extend the life of capital assets are expensed as incurred. Leases which transfer substantially all of the benefits and risks of ownership to the Company are accounted for as capital leases.

Depreciation is calculated according to the following methods and rates:

	Method	Annual rate
Buildings	Straight-line	2.5% to 5%
Equipment	Straight-line	10%
Store equipment	Straight-line	12.5%
Automotive equipment	Diminishing balance	30%
Operating system software	Straight-line	12.5% – 20%
Assets under capital leases:		
Buildings	Straight-line	Terms of the related leases not exceeding 40 years; Weighted average amortizaton period is 36 years
Store equipment	Straight-line	Terms of the related leases not exceeding 10 years; Weighted average amortizaton period is 7 years

Leasehold improvements are amortized on a straight-line basis over the terms of the related leases and the first renewal option period, not exceeding 30 years.

Sundry assets Sundry assets consisting of goodwill, deferred charges and leasehold rights are stated at cost, less amortization calculated on a straight-line basis.

Goodwill which represents the excess of the cost of acquisitions over the fair value of the net assets acquired, is evaluated periodically for any impairment in value. This consists of a review of the forecasted future earnings as well as the discounted cash flows of the operations acquired which gave rise to the goodwill. Any permanent impairments in the carrying value of the recorded goodwill are charged to income.

Deferred charges include primarily costs related to contractual agreements for various retailer assistance programs and debt issue costs.

The amortization periods are as follows:

Goodwill:
- Periods not exceeding 40 years;
- Weighted average amortization period is 19 years

Retailer assistance programs:
- Terms of the related agreements, not exceeding 8 years

Debt issue costs:
- Terms of the related debt issue

Leasehold rights:
- Terms of the related leases, not exceeding 30 years;
- Weighted average amortization period is 22 years

Pension plans The Company maintains non-contributory and contributory pension plans which cover substantially all of its employees. Members have the option of participating in the defined benefit option or the defined contribution option.

Under the defined benefit option, pensions are based on the length of service and the final average earnings for management personnel and the annual salary for other employees. The costs of the retirement plans are determined according to actuarial valuations. The pension expense comprises the total of the following:
- The cost of pension benefits provided in exchange for employees' services rendered during the year.
- Amortization, on a straight-line basis, over the employees' expected average remaining service life, of adjustments arising from changes in the plans or in assumptions and experience gains or losses.

The difference between the employer contributions and the amounts recorded as a pension expense or credit is reflected as deferred pension assets.

Under the defined contribution option, pensions are based on the amount of employer contributions, which is related to the years of service and employee contributions.

The Company also provides health and life insurance coverage to certain retired employees. Costs of providing these benefits are charged to income as expenditures are paid.

Environmental costs Costs incurred on an ongoing basis to investigate and remediate contaminated sites are expensed in the year. Remediation costs related to equipment, which extend the economic life of such assets, are capitalized and amortized over their remaining economic life.

Financial year The Company's financial year ends on the last Saturday of January. Accordingly, the year ended January 31, 1998 comprises 53 weeks of operations while the preceding year ended January 25, 1997 comprised 52 weeks of operations.

Notes to consolidated financial statements

Years ended January 31, 1998 and January 25, 1997
All tabular figures are in millions of dollars

1. Change in accounting presentation

In 1997, the Company adopted, on a retroactive basis, the new recommendations of the Canadian Institute of Chartered Accountants with respect to financial instruments. In accordance with these standards, the convertible promissory notes, issued by the Company in 1984 and disclosed in note 12, meet the definition of a financial instrument that contains a liability and an equity component. As a result of these standards being applied retroactively, the equity component of this instrument was fully amortized in 1994. These notes, which were previously presented as part of convertible promissory notes and shareholders' equity, have therefore been reclassified as part of long-term debt. This change has resulted in a decrease in opening retained earnings of $5,413,000 offset by a corresponding increase in other paid-in capital. There are no changes in reported income.

2. Depreciation and amortization

	1998	1997
Fixed assets	**62.0**	56.5
Goodwill	**5.6**	4.8
Deferred charges	**7.3**	6.9
Leasehold rights	**2.7**	2.7
	77.6	70.9

3. Interest – net

	1998	1997
Non-convertible long-term debt	**37.6**	39.7
Capitalized interest	**(2.5)**	(2.3)
Other	**1.1**	0.8
	36.2	38.2
Investment and interest income	**(3.1)**	(4.9)
	33.1	33.3

4. Unusual items

Year ended January 31, 1998

- On May 17, 1997, the Company sold its shares in its subsidiary, C Corp. Inc., for a cash consideration of $85,000,000. The gain on disposal of $15,100,000 includes proceeds in excess of net book value, net of costs related to the sale of C Corp. Inc. The net assets sold are as follows:

Working capital	**9.6**
Fixed assets	**56.6**
Other	**3.7**
	69.9
Proceeds on disposal	**85.0**
Net gain on disposal	**15.1**

This unusual item has resulted in an increase in the earnings per share of $0.16.

- On November 28, 1997, a judgement was rendered by the Court of Appeal with respect to a claim against the Company by an affiliated store operator (refer to note 20 – Contingencies) and awarded damages of $3,500,000 including related interest and costs. Provisions with respect to these costs were previously recorded and accordingly this settlement did not affect the current year's financial results.

Year ended January 25, 1997

- A provision for losses was recorded in connection with the repurchase of certain LOEB franchisees and the eventual lease termination costs related to surplus properties. In addition, the Company wrote off its investment in Consumers Distributing Inc. of $5,700,000. These unusual items have resulted in a decrease in earnings per share of $0.29.

All tabular figures are in millions of dollars

5. Income taxes

	1998	1997
The Company's consolidated effective income tax rate is as follows:		
Statutory income tax rate	38.5%	39.2%
Non deductible amortization and writeoff of goodwill	0.4	0.6
Non deductible loss on investments	–	4.7
Non taxable gain on sale of subsidiary	(4.5)	–
Non deductible provisions	–	4.6
Other	1.5	5.8
Effective income tax rate	35.9%	54.9%
The provision for income taxes consists of:		
Current	36.7	54.2
Deferred	10.9	(6.9)
	47.6	47.3

6. Cash and deposit certificates

Cash and deposit certificates include term deposits totalling $12,687,000 (1997 – $37,229,000), with average yields varying from 4.90% to 6.25% (1997 – 2.75% to 5.6%) which mature within the next month or can be redeemed upon demand.

7. Investments and long-term receivables

	1998	1997
Long-term receivables, bearing interest at rates varying from the prime rate to 10.75% and maturing up to 2006	14.7	15.8
Other	5.1	5.1
	19.8	20.9

8. Fixed assets

	1998			1997		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	69.4	–	69.4	57.1	–	57.1
Land held for future development	20.3	–	20.3	21.0	–	21.0
Construction in progress	26.1	–	26.1	22.2	–	22.2
Buildings	164.5	34.1	130.4	188.1	46.6	141.5
Equipment	439.8	247.1	192.7	438.8	256.9	181.9
Operating system software	13.4	1.7	11.7	1.8	1.0	0.8
Leasehold improvements	133.3	45.5	87.8	125.6	44.6	81.0
Assets under capital leases	58.3	25.6	32.7	61.6	25.4	36.2
	925.1	354.0	571.1	916.2	374.5	541.7

9. Sundry assets

	1998	1997
Goodwill, net of accumulated amortization	47.4	52.5
Deferred charges, net of accumulated amortization	19.8	22.8
Leasehold rights, net of accumulated amortization	30.2	33.1
Tax benefits	–	2.8
Deferred income taxes	43.4	46.3
Deferred pension assets	12.4	9.5
	153.2	167.0

All tabular figures are in millions of dollars

10. Unsecured line of credit

As at January 31, 1998, the Company had an agreement with various banking institutions for a committed credit facility totalling $250 million, of which $11.1 million had been used. This credit facility has certain associated debt/equity ratio and interest coverage covenants and bears interest at varying rates up to the prime rate.

11. Non-convertible long-term debt

	1998	1997
Series 1987-A debentures, 10.8%, maturing in September 1997	–	75.0
Series 1991 debentures, 11.25%, maturing in March 2001	**100.0**	100.0
Series 1996 debentures, 8.7%, maturing in May 2006	**125.0**	125.0
Series 1997 debentures, 6.35%, maturing in December 2004	**100.0**	–
Notes*	–	18.9
Mortgages and other notes	–	1.2
	325.0	320.1
Less instalments due within one year	–	75.6
	325.0	244.5

*The unsecured promissory notes, issued at market rates and maturing within one year, are supported by a two year committed long-term credit facility, renewable annually for an additional twelve month period. Accordingly, these borrowings are classified as long-term debt.

As at January 31, 1998 all long-term debt is unsecured. The minimum annual instalment on long-term debt due in the next five years is $100,000,000 in 2001.

12. Convertible promissory notes

	1998	1997
Promissory notes, convertible into common shares, maturing in June 1999	**20.0**	20.0

The notes bear interest at a variable rate equal to the higher of:
i) 2.8 % per annum; or
ii) the annual percentage rate obtained by dividing the dividends paid on the Company's common shares for the two quarters immediately preceding the payment date of the interest on the notes by $4.475, plus 0.5%.

The notes cease to bear interest from the date when the Company decides no longer to pay dividends on its common shares until the date when it decides to resume a dividend payment policy. The payment of dividends on common shares was suspended in November 1994 and therefore these notes are non-interest bearing at this time.

The conversion right attached to the convertible promissory notes is exercisable at a price of $4.93 per share until June 28, 1999 and $4.475 per share upon maturity on June 29, 1999.

13. Obligations and commitments under leases

Minimum lease payments under capital and operating leases are as follows:

	Capital leases	Operating leases Gross	Operating leases Net of sub-leases
1999	**8.7**	**84.9**	**72.7**
2000	**8.1**	**82.0**	**72.7**
2001	**6.1**	**77.0**	**69.4**
2002	**5.4**	**69.9**	**64.6**
2003	**5.0**	**66.3**	**61.9**
2004 and thereafter	**90.5**	**636.1**	**616.7**
Total minimum lease payments	**123.8**	**1,016.2**	**958.0**
Less:			
Imputed interest at the average rate of 11%	**79.6**		
Instalments due within one year	**3.7**		
Long-term obligations under capital leases	**40.5**		

The interest charged to income amounts to $5,200,000 (1997 – $6,276,000) and is included in interest on non-convertible long-term debt. Operating lease expenses, net of sub-lease revenues, charged to income during the year amount to $65,545,000 (1997 – $63,025,000).

All tabular figures are in millions of dollars

14. Capital stock

Authorized:

Unlimited number of first preferred shares without par value and issuable in series, of which 3,400,000 have been designated as first preferred shares, series 1

Unlimited number of second preferred shares without par value and issuable in series

Unlimited number of common shares without par value

Issued and outstanding:	**1998**	1997
95,993,265 common shares (1997 – 95,602,410)	**188.8**	185.9
– first preferred shares, series 1 (1997 – 3,400,000)	–	82.4
– common share purchase warrants (1997 – 4,400,000)	–	1.5
	188.8	269.8

The first preferred shares, series 1, were entitled to cumulative preferential cash dividends at a quarterly rate of $0.50 per share. These shares were redeemable and convertible into common shares. On April 10, 1997, the Company redeemed the 3,400,000 first preferred shares, series 1, for a cash consideration of $85,000,000. This has resulted in a charge to retained earnings of $2,691,700 including related income taxes of $141,700.

In March 1996, the Company issued 8,800,000 common shares and 4,400,000 common share purchase warrants for an aggregate cash consideration of $68,640,000. The share issue costs in the amount of $1,900,000, net of related income taxes of $1,100,000, were charged to retained earnings. Each common share purchase warrant entitled the holder to purchase one common share at a price of $8.50 per share up to and including March 27, 1997. The warrant holders did not exercise their right to purchase common shares and therefore these warrants no longer have any value. This has resulted in an increase in retained earnings of $1,020,000, net of related income taxes of $520,000.

During the year, 26,679 (1997 – 32,669) common shares were issued under the employee stock purchase plan for a cash consideration of $180,083 (1997 – $173,472). In addition, 364,176 (1997 – 48,900) common shares were issued under the stock option plan of the Company for a cash consideration of $2,736,420 (1997 – $370,100).

As at January 31, 1998, common shares were reserved for the following:

	Common shares reserved
Employee stock purchase plan	**99,985**
Stock option plan	**7,226,924**
Conversion right attached to the convertible promissory notes	**4,480,000**

Of the 7,226,924 common shares reserved under the stock option plan of the Company, 5,981,511 shares represent options that have been granted and can be exercised at prices varying from $5.75 to $11.00 per share after certain vesting periods expiring up to the year 2005.

15. Fair value of financial instruments

The fair value of financial instruments is determined by reference to various market value data and other valuation techniques as appropriate. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The fair value of cash and deposit certificates, receivables, cheques issued and outstanding and payables and accrued liabilities is equivalent to their carrying amount given their short term maturities.
- The fair value of investments and long-term receivables, convertible promissory notes and obligations under capital leases is estimated by discounting future cash flows using market rates for financial instruments with similar terms and maturity dates.
- The fair value of non-convertible long-term debt is determined based on their quoted market prices.

With the exception of the following, the fair value of financial instruments approximate their carrying values:

	1998		1997	
	Fair value	Carrying value	Fair value	Carrying value
Long-term receivables	**13.9**	**14.7**	15.0	15.8
Non-convertible long-term debt including current portion	**356.2**	**325.0**	358.4	320.1
Convertible promissory notes	**18.4**	**20.0**	17.3	20.0
Obligations under capital leases including current portion	**43.9**	**44.2**	40.1	50.2

All tabular figures are in millions of dollars

16. Non-cash items

	1998	1997
Depreciation and amortization	**77.6**	70.9
Gain on sale of subsidiary	**(15.1)**	–
Loss on investments	**–**	7.9
Writedown of fixed assets	**2.1**	0.6
Deferred income taxes	**10.9**	(6.9)
Other	**(2.5)**	1.9
	73.0	74.4

17. Changes in non-cash working capital items

	1998	1997
Receivables	**(45.4)**	18.8
Inventories	**(19.2)**	(41.7)
Prepaid expenses	**(1.8)**	2.0
Payables and accrued liabilities	**25.3**	27.2
Income and other taxes	**(1.9)**	7.3
	(43.0)	13.6

18. Pension plans

Funds are contributed to the plans as necessary to provide for current service costs. To the extent that actuarial liabilities are fully covered by pension plan assets, Company contributions may be reduced or not required in any particular year. Actuarial reports are prepared annually by independent actuaries for accounting purposes.

The following table sets forth the pension expense for the years 1998 and 1997 and the deferred pension assets as of January 31, 1998 and January 25, 1997.

	1998	1997
Pension expense		
Service cost for the year	**5.9**	6.0
Interest cost on projected benefit obligations	**6.4**	6.2
Return on assets	**(7.8)**	(7.2)
Amortization of actuarial surplus	**(1.2)**	(1.6)
Pension expense for the year	**3.3**	3.4
Plans' funded status		
Plans' assets at market related value	**146.1**	127.7
Actuarial projected benefit obligations	**120.7**	112.1
Plans' assets in excess of projected benefit obligations	**25.4**	15.6
Unamortized actuarial gains*	**(13.0)**	(6.1)
Deferred pension assets	**12.4**	9.5

*Being amortized over the expected average remaining service life of the employee groups covered by the plans, generally 11 years.

19. Related party transactions

In the normal course of business, the Company leases retail outlets from subsidiaries of its principal shareholder, Caisse de dépôt et placement du Québec. These transactions are recorded at their exchange value. The minimum lease payments under operating leases, amount to $5,211,000 (1997 – $4,772,000) and are included in operating and administrative expenses. The contractual obligations under these operating leases amount to $92,017,000 as at January 31, 1998. The obligation under capital leases amounts to $7,320,000 as at January 31, 1998 (1997 – $7,622,000). The interest and amortization expenses charged to income on capital leases amount to $286,000 and $73,000 respectively (1997 – $288,000 and $73,000). These leases expire at varying dates up to 2028.

In addition, the convertible promissory notes disclosed in note 12 are held by the Caisse de dépôt et placement du Québec.

20. Contingencies

A number of store operators affiliated with a subsidiary of the Company have instituted actions in damages against such subsidiary. These actions represent proceedings instituted by 58 store operators based mainly upon allegations that the operation of certain corporate stores of Provigo Distribution Inc. constituted unfair competition to the plaintiffs. Since the institution of these actions, 47 operators have discontinued their respective claims. In connection with this matter, the Court of Appeal rendered a judgement on November 28, 1997 with respect to one such claim. This judgement affirmed the Company's right to conduct operations under corporate banners other than that of Provigo supermarkets. On the other hand, the Court found fault with the Company regarding certain facts and ordered damages including interest and costs of approximately $3,500,000 (see note 4 – Unusual items). Considering the conclusions of this judgement, the management of the Company is of the opinion that the remaining 11 proceedings will not have a material impact on the financial position of the Company.

In October 1992, an action for damages was brought against the Company following its decision not to proceed with the purchase of the Aligro division of Steinberg Inc. The management of the Company believes it was justified to do so under the terms of the offer to purchase and the claim is being vigorously contested. In addition, former officers of Sports Experts Inc. have instituted an action for damages against the Company alleging that the Company had given them a right of first refusal on the purchase of the shares of Sports Experts Inc. which were sold to a third party in 1994. The Company is of the opinion that it is within its rights and is therefore contesting this action vigorously. The outcome of these proceedings cannot be determined at this time; however, management is of the opinion that they will not have a material impact on the financial position of the Company.

In addition, the Company and its subsidiaries are parties to claims and suits brought against them in the normal course of business. In the opinion of management, all such claims and suits are adequately covered by insurance, or if not so covered, their outcome is not expected to materially affect the financial position of the Company.

21. Comparative figures

Certain of the 1997 comparative figures have been reclassified in order to conform with the presentation adopted in 1998.

Quarterly results (unaudited)

(Millions of dollars, except for earnings per share)

	First quarter (12 weeks)	Second quarter (16 weeks)	Third quarter (12 weeks)	Fourth quarter (13 weeks)	Full year (53 weeks)
1998					
Net sales	**1,341.0**	**1,819.5**	**1,333.9**	**1,461.8**	**5,956.2**
Operating income before depreciation and amortization	**53.0**	**68.4**	**50.4**	**56.3**	**228.1**
Depreciation and amortization	**18.1**	**23.4**	**17.4**	**18.7**	**77.6**
Operating income	**34.9**	**45.0**	**33.0**	**37.6**	**150.5**
Interest – net	**7.8**	**10.6**	**7.2**	**7.5**	**33.1**
Unusual items	**–**	**(15.1)**	**–**	**–**	**(15.1)**
Income before income taxes	**27.1**	**49.5**	**25.8**	**30.1**	**132.5**
Income taxes	**10.9**	**14.4**	**10.8**	**11.5**	**47.6**
Net income	**16.2**	**35.1**	**15.0**	**18.6**	**84.9**
Net income per common share	**$0.15**	**$0.37**	**$0.15**	**$0.20**	**$0.87**

	(12 weeks)	(16 weeks)	(12 weeks)	(12 weeks)	(52 weeks)
1997					
Net sales	1,306.7	1,805.9	1,355.8	1,364.1	5,832.5
Operating income before depreciation and amortization	48.8	66.9	49.9	53.8	219.4
Depreciation and amortization	15.0	21.4	16.7	17.8	70.9
Operating income	33.8	45.5	33.2	36.0	148.5
Interest – net	7.5	9.8	8.3	7.7	33.3
Unusual items	–	–	29.1	–	29.1
Income (loss) before income taxes	26.3	35.7	(4.2)	28.3	86.1
Income taxes	11.3	15.6	9.4	11.0	47.3
Net income (loss)	15.0	20.1	(13.6)	17.3	38.8
Net income (loss) per common share	$0.15	$0.19	$(0.17)	$0.17	$0.34

	1998 (53 weeks)	1997 (52 weeks)	1996 (52 weeks)	1995 (52 weeks)	1994 (52 weeks)
CANADIAN OPERATIONS ONLY					
(Millions of dollars, except for EPS)					
Net sales	**5,956.2**	5,832.5	5,725.2	5,542.3	5,433.4
Operating income before depreciation and amortization	**228.1**	219.4	219.4	195.5	168.6
Operating income	**150.5**	148.5	157.3	134.5	108.9
Net income (before unusual items) (1)	**69.8**	66.3	66.5	55.3	41.0
Capital expenditures	**184.0**	171.4	95.3	37.5	41.9
Earnings per common share (before unusual items) (dollars) (1)	**0.71**	0.63	0.69	0.56	0.39
COMPANY – WIDE DATA					
Operations (Millions of dollars)					
Net sales	**5,956.2**	5,832.5	5,725.2	6,176.4	6,207.2
Operating income before depreciation and amortization	**228.1**	219.4	219.4	188.8	167.7
Operating income	**150.5**	148.5	157.3	115.5	93.0
Interest – net	**33.1**	33.3	36.8	37.6	39.4
Income taxes (recovery)	**47.6**	47.3	54.0	30.8	(17.8)
Income (loss) from continuing operations	**84.9**	38.8	40.7	(98.6)	(96.1)
Net income (loss)	**84.9**	38.8	40.7	(98.6)	(109.0)
Net income (loss) attributable to common shares	**83.0**	32.0	33.9	(105.4)	(115.8)
Changes in financial position					
(Millions of dollars)					
Cash from operating activities	**114.9**	126.8	177.8	54.5	163.4
Capital expenditures	**184.0**	171.4	95.3	43.9	48.2
Dividends on common shares	**–**	–	–	5.2	24.2
Financial position					
(Millions of dollars)					
Current assets (2)	**489.4**	463.9	414.5	397.6	501.1
Current liabilities	**534.4**	568.8	518.8	422.1	711.0
Working capital (2)	**(45.0)**	(104.9)	(104.3)	(24.5)	(209.9)
Fixed assets	**571.1**	541.7	430.0	387.5	491.0
Total assets (2)	**1,233.5**	1,193.5	1,051.6	1,022.8	1,279.8
Total debt	**389.2**	390.3	375.6	427.7	465.0
Shareholders' equity	**313.6**	313.3	214.4	181.4	292.6
Financial statistics					
Total debt:equity	**55:45**	55:45	64:36	70:30	61:39
Current ratio (times) (2)	**0.92**	0.82	0.80	0.94	0.70
Fixed-rate debt % total debt	**95%**	90%	74%	66%	65%
Per common share (Dollars)					
Income (loss) from continuing operations	**0.87**	0.34	0.39	(1.22)	(1.19)
Net income (loss)	**0.87**	0.34	0.39	(1.22)	(1.34)
Cash from operating activities	**1.20**	1.34	2.05	0.63	1.89
Dividends on common shares	**–**	–	–	0.06	0.28
Shareholders' equity	**3.27**	2.42	1.52	1.11	2.39
Market price (Montreal Exchange)					
High	**9.50**	8.75	8.75	7.63	10.63
Low	**5.50**	5.00	4.90	4.85	7.00
Shareholder statistics					
Common shares outstanding at end of year (thousands)	**95,993**	95,602	86,721	86,670	86,624
Weighted average number of common shares outstanding during the year (thousands)	**95,663**	94,397	86,679	86,632	86,557
Average number of common shares traded weekly (3)	**947,271**	850,381	517,476	253,750	326,993
Common shareholders of record at end of year	**3,119**	3,225	3,484	3,727	3,963

(1) The net interest expense has been deducted from the results of Canadian operations.
(2) Excluding net assets of, and proceeds receivable on sale of, discontinued operations.
(3) Montreal Exchange and Toronto Stock Exchange.

Corporate governance

Year ended January 31, 1998

Provigo Inc. has long had high standards of corporate governance. Over the years, it has adopted policies covering insider trading, the appointment of senior executives to the boards and committees of other institutions, and conflicts of interest.

The code of ethics adopted several years ago is applicable to all employees and reflects these policies and includes a number of chapters covering relations with customers, suppliers and third parties in general, as well as environmental protection. All our employees have been informed of the recently adopted environmental policy.

Provigo believes that it conforms, to a large extent, to the objectives outlined in the guidelines issued by the Montreal and Toronto Stock Exchanges.

These guidelines cover the following issues:

Structure and composition of the Board of Directors and its committees
As of May 1997 the Board has consisted of 11 directors, allowing for better emphasis on the individual contribution of each member and enhanced communications within the Board and its committees while fostering efficient decision-making.

Two directors, being officers of the Company, are considered to be related under the guidelines of the stock exchanges. The Company also notes that two directors hold positions with its primary shareholder, Caisse de dépôt et placement du Québec, and finally, that another director is associated with a firm which offers its services to the Company.

All remaining directors are external and unrelated.

The Company believes that this composition fairly represents all shareholders.

Board committees are composed of external directors with the exception of the pension plan investment committee which has the Executive Vice-President and Chief Financial Officer as one of its members.

Mandate, responsibilities and objectives of the Board of Directors
The Board of Directors is responsible for managing the Company.

In this capacity, the Board assumes the following responsibilities, among others: selection of the Chief Executive Officer, evaluation of his performance and his compensation, approval of corporate strategic plans, objectives and major business decisions.

The Board also fulfills these roles through committees mandated to specific functions, as described below. Each committee reports regularly to the Board and submits recommendations on various issues when warranted.

To assist directors in gaining a clear understanding of the Company's operations, Provigo regularly schedules presentations by operational sector heads during Board meetings. Provigo also organizes an annual work session during which directors and senior executives discuss strategy, major developments and review the business plan.

The Board has increased the frequency of meetings to an almost monthly basis in the past year and thereby plays an even more active role. Given the increased involvement of the Board, the members decided to disband the executive committee which no longer had a useful purpose.

Audit committee
President: Richard Drouin
Members: Robert Chevrier, Pierre Fortier, Yves Des Groseillers
The audit committee reviews the Company's financial statements and recommends their approval by the Board. It receives and reviews management reports regarding internal controls and management information systems. It also regularly receives reports on the major risks facing the Company and ensures that necessary measures are taken for sound management of these risks.

This committee meets regularly with internal and external auditors. As well, at least once a year, it meets with senior management to receive and study environmental reports in order to inform the Board of Directors.

Corporate governance committee
President: Robert Chevrier
Members: Richard Drouin, Pierre Michaud, Jeremy H. Reitman
This committee is responsible for reviewing the guidelines pertaining to corporate governance issued by the exchanges and for ensuring compliance with these guidelines while respecting the nature of the Company.

The committee conducts an evaluation of the Board of Directors and its committees as well as of the members of the Board with regards to these guidelines.

The corporate governance committee also sees that the Company's code of ethics and environmental policy are enforced.

The corporate governance committee is also responsible for reviewing the composition of the Board of Directors and for submitting recommendations regarding the appointment or election of new Board members.

Human resources committee
President: H. Arnold Steinberg
Members: Pierre Michaud, David L. Torrey
This committee is responsible for human resource issues, including matters of organization and succession. It reviews and approves the compensation, benefits and incentives of senior executives. It evaluates the performance of the Chief Executive Officer and reviews the evaluations of senior executives. The President and Chief Executive Officer is a permanent guest of the committee but does not take part in any discussions involving him.

Pension fund investment committee
President: David L. Torrey
Members: JoAnne Labrecque, Pierre Fortier, Roland Harel
The primary responsibility of the pension fund investment committee is to establish and review annually the objectives and investment policies pertaining to the pension plan assets of Provigo and its operating companies, and to ensure that they comply with applicable regulations. The committee regularly reviews the performance of the pension fund investment portfolios and evaluates the performance of the portfolio managers.

Communication policy for shareholders, stock markets and the general public
This policy states that Provigo must provide its shareholders, financial analysts, creditors, suppliers, employees and the general public with timely, appropriate and reliable information.

The Company favours transparency. Each case is evaluated by senior management, the Board of Directors, or the audit committee together with senior management, who use their best judgment to provide the most accurate information possible. This is done without over-estimating or under-estimating the benefit or risk involved in the release of the information, while taking into account its possible impact on the Company or any third parties. This is carried out in accordance with disclosure regulations issued by the exchanges.

The Company has also taken steps to adequately respond to shareholders' comments, questions and concerns. Any shareholder can communicate directly with the Company. The Finance department deals with institutional investors while the Legal Affairs and secretarial office responds to questions and comments from individual shareholders.

Board's expectations of management
The Board of Directors expects the management team to meet the objectives of the business plan which it approved.

The ultimate objective of Provigo Inc. is to become and remain a leader in the sectors where it does business: the retail sector, through its corporately controlled stores, and the wholesale sector, through the stores controlled by its affiliates and franchisees as well as through its independent and institutional clients.

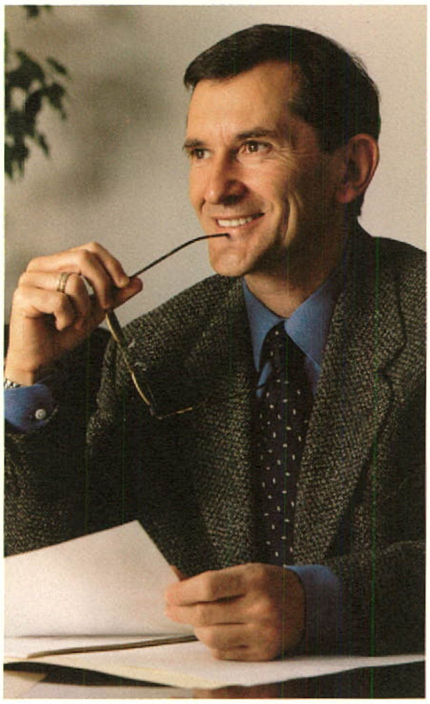
Provigo strives towards sustained growth and strong performance.
To achieve these objectives, Provigo champions the following values:

- responsibility towards its clients: high-quality products at the lowest possible price; innovation and adaptation to client;
- responsibility towards employees: a healthy working environment which fosters individual contribution through comments and suggestions;
- responsibility towards shareholders: to maintain the Company's financial health.

While profitability is Provigo's main objective, the Company also wants to remain a responsible corporate citizen in every respect.

H. Arnold Steinberg (C.M.), Montreal, Quebec. Board member since 1995. An associate at Cleman Ludmer Steinberg, Business Banking Services. Mr. Steinberg was previously a senior manager at Steinberg. He sits on the boards of Teleglobe, Teleglobe Canada, Almiria Capital Corp., and is the Chairman of the Board of McGill University's Health Centre.

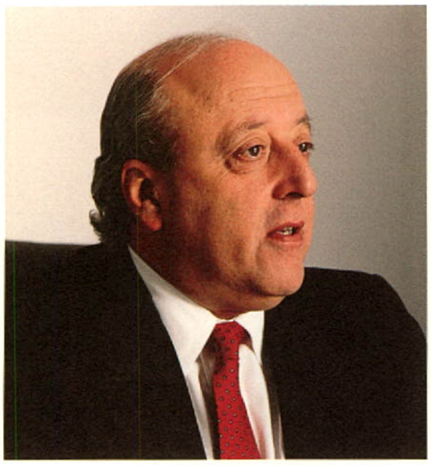
Pierre Michaud, Montreal, Quebec. Board member since 1993. Chairman of the boards of Provigo Inc., Capital GVR Inc., and Réno-Dépôt where he introduced the warehouse concept to Quebec's renovation sector. He sits on the boards of Capital d'Amérique CDPQ, Laurentian Bank of Canada, Laurentian Trust, the Old Port of Montreal Corporation, The Montreal Expos Baseball Club and Castorama S.A. (France).



Pierre L. Mignault, Montreal, Quebec. Board member since 1993. President and CEO of Provigo. Mr. Mignault was a senior manager at the Hudson's Bay Company and Steinberg Inc. before creating Club Price in 1985 and acting as President and CEO of the Company until 1993. He sits on the board of the Montreal Childrens' Hospital.

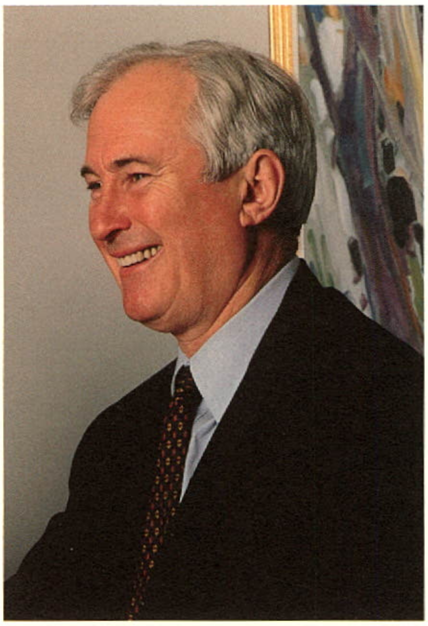
JoAnne Labrecque, Montreal, Quebec. Board member since 1995. She is an Associate Professor at the École des Hautes Études Commerciales. She has been interested in consumer behaviour since the beginning of her career and has worked as a marketing analyst for CROP, a consultant for Secor and a nutrition and consumption professor at Laval University. She is the director of Diagramme gestion culturelle and Distributions alimentaires Le Marquis.

Yves Des Groseillers, Montreal, Quebec. Board member since 1996. Chairman of the Board, President and CEO of the Groupe BMTC and Brault & Martineau.

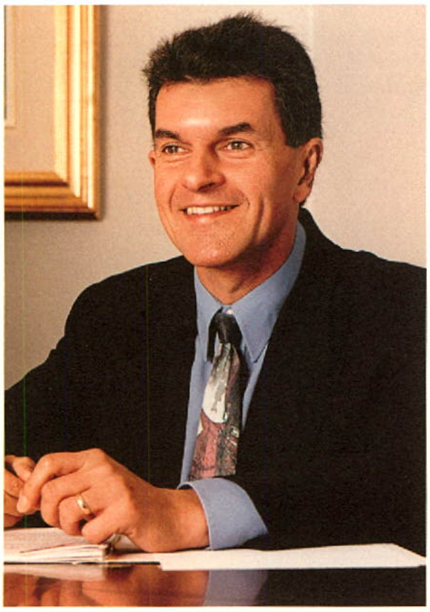


Jeremy H. Reitman, Montreal, Quebec. Board member since 1997. President and CEO of Reitmans (Canada) Ltd. Mr. Reitman sits on the boards of the Bank of Montreal, NetStar Communication and the United Israel Appeal of Canada.

Robert Chevrier, Montreal, Quebec. Board member since 1995. Vice Chairman of the Board, President and CEO, Westburne. Mr. Chevrier was previously President of the Société de Gestion Roche, an associate at Schroders & Partners and President and CEO of Uni-Select. Mr. Chevrier sits on the boards of Quincaillerie Richelieu Ltd, Boutiques San Francisco and Donohue.



Richard Drouin, Quebec City, Quebec. Board member since 1990. An associate at the firm McCarthy Tetrault and Vice-Chairman of the board of Morgan Stanley Canada. Mr. Drouin was President of Hydro-Québec from 1988 to 1995. He sits on the boards of the American Superconductor Corporation (AMSC), CT Financial Services (Canada Trust), Abitibi Price, Télé-Métropole and Stelco.



Pierre Fortier, Montreal, Quebec. Board member from 1993 to January 1998. Vice-President of Capital d'Amérique CDPQ Inc. – Caisse de dépôt et placement du Québec since 1984, Mr. Fortier was previously Vice-President, Investments Department, Special Projects. He also sits on the boards of SSiG, Westburne, Groupe Vidéotron and Op Tel.

Roland Harel, Montreal, Quebec. Board member during the last year. He is executive Vice-President and Chief Financial Officer, Before joining the Company in 1993, Mr. Harel held the same position at Club Price Canada as well as a variety of positions with the Hudson's Bay Company.

David L. Torrey, Montreal, Quebec. Board member since 1995. Company Director. Mr. Torrey was formerly Vice-Chairman of the board of RBC Dominion Securities Inc. He sits on the boards of ICI Canada, Canadian Stebbins Engineering & Manufacturing Co. Ltd., Cuddy International Corporation and Wajax Limited.

Senior Executives

Pierre Michaud
Chairman of the Board

Pierre L. Mignault
President and Chief Executive Officer

Roland Harel
Executive Vice-President
and Chief Financial Officer

Sylvie Lorrain
Executive Vice-President
Operations and Merchandising
Maxi/Maxi & Co.

Bernard J. McDonell
Executive Vice-President
Real Estate and Corporate Development

Daniel Tremblay
Executive Vice-President
Operations and Merchandising
Provigo and LOEB supermarkets

Jean-Guy Duchaine
Senior Vice-President
Human Resources and Communications

Pierre Ledoux
Senior Vice-President
Distribution Group

James A. Robertson
Senior Vice-President
Presto-Linc

Pierre Poirier
Vice-President
Legal Affairs, Environment and Secretary

Raymond Sarrazin
Vice-President
Logistics and Distribution

Service Management

Johanne Babin
Vice-President
Operational Development

Peter Bolla
Vice-President
Development and Construction

Sylvie Lachance
Vice-President
Real Estate

Jean-Yves Poirier
Vice-President
Information Technologies and Systems

Robert St-Jean
Vice-President and Controller

Claude Tessier
Vice-President
Finance and Treasury

Roland Tissot
Vice-President
Market Development
Real Estate

Joëlle Verdon
Vice-President
Investor Relations

Operation Management

Provigo and LOEB supermarkets

Daniel Tremblay
Executive Vice-President
Operations and Merchandising
Provigo and LOEB supermarkets

Marie-France Gibson
Senior Vice-President,
Merchandising and Procurement

Claire Côté
Senior Vice-President,
Merchandising and Procurement

Gaétan Baril
Vice-President
Merchandising and Procurement

François Desrosiers
Vice-President
Marketing

Jean-Charles Léveillé
Vice-President
Operations

Callum McLean
Vice-President
Operations

Denis Melançon
Vice-President
Operations

François Raymond
Vice-President
Operations

Johanne Santella
Vice-President
Merchandising and Procurement

Paul Waite
Vice-President
Operations

Maxi and Maxi & Co.

Sylvie Lorrain
Executive Vice-President
Operations and Merchandising
Maxi, Maxi & Co.

Alain Brisebois
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Merchandising and Procurement

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Merchandising and Procurement

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Merchandising and Procurement

Mario Latendresse
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Operations

Suzie Marceau
Vice-President
Operations

Josée-Anne Morin
Vice-President
Marketing

Self Service

James A. Robertson
Senior Vice-President
Presto-Linc

Distribution Group and Food Services

Pierre Ledoux
Senior Vice-President
Distribution Group

Pierre Cusson
Vice-President
Merchandising and Procurement

Shareholder and investor information

The Company is listed on the Montreal and Toronto Stock Exchanges.
Ticker symbol: PGV.

Transfer agent and registrar
Montreal Trust Company

Annual Meeting
The Annual General Shareholders' Meeting will be held on Thursday, May 21, 1998 at 11 a.m. in the Salons des Saisons A & B of Le Westin Mont-Royal Hotel, 1050 Sherbrooke West, Montreal, Quebec.

Investor relations
Investors seeking financial or other information about the Company should contact the Investor Relations Department at the following telephone numbers:
- Institutional investors, brokers, securities analysts:
(514) 383-3170
- Others:
(514) 383-2943 or 3074

To inquire about share transfers or for changes of address, shareholders are requested to contact the transfer agent, Montreal Trust Company at (514) 982-7555 or (416) 981-9633.

Provigo's press releases are available on the Internet at Canada NewsWire's Web site (http://www.newswire.ca).

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