Annual Report 1982

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Provigo Inc. is primarily engaged, through its subsidiaries, in the wholesale and retail distribution of food, and to a lesser extent, drug products, general merchandise and sporting goods. The Company is also involved in the retail distribution of petroleum products as well as in property investment and management related to its distribution business. Although operating throughout almost all of Canada and certain areas of the United States, the Company's principal regions are Quebec, Ontario, Alberta and California. The Company employs 13,000 people and sales reach $3.3 billion.

Annual Meeting
The Annual General Meeting of Shareholders of Provigo Inc. will be held in the Ballroom of Le Château Champlain, Place du Canada, Montreal, on Tuesday, May 25, 1982 at 4:00 p.m.

Ce rapport annuel est publié en français et en anglais. Vous pouvez obtenir l'édition française de ce rapport en vous adressant au Secrétaire, Provigo Inc., 800, boulevard Dorchester ouest, Montréal, Québec H3B 1Y2

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Highlights 1981-1982

Financial Results	1982	1981
Net sales	**$3,293,960,000**	$2,631,330,000
Net income for the year	**$ 19,637,000**	$ 24,595,000
Earnings per common share (1)	**$0.94**	$1.29
Dividends per common share (1)	**$0.40**	$0.29
Common shares outstanding, at year end (1)	**19,293,092**	17,293,092
Preferred shares ($25) outstanding, at year end	**875,000**	1,000,000
Market price range — common stock (1)	**$8 1/2—$17 3/4**	$7 1/4—$14 3/8
Financial Position		
Current assets	**$ 353,011,000**	$ 300,552,000
Current liabilities	**317,881,000**	262,198,000
Fixed assets	**226,743,000**	133,328,000
Total assets	**624,525,000**	460,777,000
Obligations under capital leases	**27,363,000**	5,183,000
Long-term debt	**116,567,000**	71,546,000
Shareholders' equity	**153,241,000**	114,606,000
Funds from operations	**$ 35,840,000**	$ 40,364,000
Statistical Data		
Number of employees (2) — Full-time 8,829		
— Part-time 4,097	**12,926**	8,719
Distribution network		
Distribution centres and agencies	**51**	44
Cash & Carry depots	**77**	77
Affiliated members — major banners	**1,518**	1,458
Convenience store franchises	**423**	390
Gasoline stations (3)	**214**	188
Corporate stores		
Conventional supermarkets	**158**	78
Square footage	**2,975,193**	1,384,915
Discount stores	**20**	12
Square footage	**237,393**	150,720
Drugstores	**9**	9
Square footage	**42,550**	42,550

(1) After giving retroactive effect to the common share subdivision on a basis of four to one during fiscal 1981-82.
(2) Includes employees of the new Provigo supermarkets (ex-Dominion).
(3) Consists of Top Valu Gasmarts and self-service gasoline stations twinned with Provi-Soir outlets.

Message from the Chairman of the Board

We are pleased to present to you the Company's Annual Report for the fiscal period ending January 30, 1982. The year 1981 has shown to be a difficult one and overall growth has been slow throughout the country. Gross national product increased about 2.8%. The general consumer price index rose by 12.5% although in the food sector, prices increased more moderately by 11.4%. Similarly, interest rates soared to a record level and the rate of unemployment became more serious.

The political and social climate did not lend relief to the growing economic problems. In Canada, the patriation of the Constitution and the desire by the Federal Government to re-establish control over certain sectors which the Provincial Governments had assumed, served only to create further uncertainty.

Our primary activity is, of course, food distribution. Here, the competition is relentless. And because of the high cost of living, the consumer has become more conscious of new market strategies. For this reason, it is essential that we systematically explore all possible methods to cut costs and improve productivity in order to minimize the impact of price increases on goods and services that we provide. No less important is our responsibility to ensure the Company's profitability and to provide a satisfactory return to the shareholders.

Despite both external and internal influences, Provigo and its subsidiaries completed the year with varying degrees of success. Sales rose remarkably to a new peak of $3.3 billion, moving the Company from third to second place among food distributors in Canada, and from sixteenth to fifteenth among North American food distributors.

Net income per common share was 94¢, a lower result than the corresponding figure last year. Bearing in mind the challenges which confronted the Company during a year of considerable expansion, I can assure you that being able to maintain earnings at this level constitutes, in my opinion, a reasonable performance. The report of the President and Chief Operating Officer elaborates on these results.

The most important development during the year was the purchase of most of the assets of Dominion Stores Limited located in the Province of Quebec. In total, we acquired 86 retail outlets, six distribution centres and other real estate, all of which have been fully integrated into our own distribution network.

Concurrent with the acquisition of the ex-Dominion operations, in February 1981 we concluded the integration of Abattoir St-Valérien Inc. and the purchase of 100% of the shares of National Drug Limited. During the same period, Provigo completed its purchase of all of the voting shares of Sports Experts Inc. Indeed, in the light of these projects, as well as those covered in the report of the President and Chief Operating Officer, 1981 was without a doubt, a year of considerable expansion.

This string of acquisitions has been followed by a period of integration and consolidation, which included many inherent difficulties and obstacles. These problems were only compounded by the unprecedented rise in interest rates. Their persistance at high levels, in conjunction with additional capital requirements, resulted in additional interest expense of $13.8 million. If one also takes into account the current operating costs driven by inflation, and in particular the cost of energy, a resource which we use in all its forms in considerable quantities, and the grim economic climate, it is easier to understand the results obtained during the last fiscal period. It was a year of expansion, and indeed an expensive one. But we are convinced that our new commitments will generate earnings potential in the medium and long term for Provigo Inc. as a whole.

At the Annual Meeting held on May 26, 1981, the shareholders approved a split of common shares on a four for one basis, as well as an increase in the Company's authorized capital stock. Subsequently, in early June, the shares were split and on July 21, 1981, the Company, through its agents and underwriters, issued 2,000,000 common shares from treasury for net proceeds of $31 million. The purpose of this issue was to finance the acquisition of certain assets of Dominion Stores Limited. Provigo Inc. now has 19,293,092 common shares outstanding held by more than 8,000 shareholders.

The quarterly dividend rate paid to holders of common shares was maintained at a level of 10¢ per share, equivalent to 40¢ per year.

In response to the difficult conditions which prevailed, the Company has instituted a program of budgetary cutbacks. Faced with escalating costs, we have found it timely to reassess and evaluate carefully the various aspects of our operations, in order to reduce expenses and increase profitability.

It does not seem apparent, however, that the various levels of government have taken their own programs of budgetary restrictions seriously. They have been well publicized, and some cuts have been made. But government deficits have continued to grow, and have now reached proportions unacceptable for society as a whole. In an attempt to contain these growing deficits, governmental authorities have resorted to imposing additional indirect taxes. According to our calculations, this year the Provigo group of companies paid $39.5 million in taxes and social benefits. Translated into simpler terms, this means that for every dollar of net profit, the Company paid $2.29 in taxes to the governments. This is equivalent to a dividend of $2.15 per common share, whereas the shareholders received a dividend of only 40¢ per common share.

During the year, Mr. Frank M. Warnock resigned as a Director of Provigo Inc., and as President and Chief Executive Officer of M. Loeb, Limited. The vacancy on the Board of Directors will be filled at the Annual Meeting to be held on May 25, 1982. Mr. H. Paul Gobeil, C.A., was named President and Chief Operating Officer of M. Loeb, Limited in August 1981 and retained his responsibilities as Vice-President, Finance, Provigo Inc. Mr. Yvan Bussières, B.Sc.A., M.B.A., previously Vice-President of Real Estate Development, was appointed Vice-President, Administration and Treasurer of Provigo Inc. Mr. Jean-Claude Merizzi, L.Sc. Comm., Vice-President, Development and Expansion, assumed the additional responsibility for real estate.

The Board of Directors will recommend at the Annual Meeting the approval by shareholders of an amendment to its by-law regarding the age limit for eligibility to serve on the Board. This change will allow the Company to retain the services of directors with valuable experience, knowledge and particular skills.

As well, the Board will recommend the approval of a by-law increasing the number of directors of the Company from 15 to 18.

The economic outlook for 1982 is not particularly encouraging. It is generally expected that the gross national product will increase by only 1%, which is indicative of a stagnant economy. The principal contributors — inflation, unemployment and interest rates — will continue to wreak havoc.

Despite the present difficult conditions, we feel that the current year will be a good one for Provigo and that the results will improve. The Provigo group of companies will pursue its program to limit expenses at all levels. Losses incurred in the new supermarkets will be reduced in 1982. A program of rationalization implemented some months ago, should reflect an improvement in the financial position of these stores in the future.

Since 1982 will be a year of consolidation, no major acquisitions are anticipated or contemplated in the interim. Meanwhile, emphasis will continue to be placed upon the development of our human resources programs. These programs, which have been in existence for a number of years, are aimed at training and developing highly qualified managers. We are very proud of the Provigo team; dedicated and devoted men and women whose efforts permit the Company to reach new heights of achievement. At the same time, we are making every possible effort to ensure that our distribution networks continue to lead the industry by implementing new strategies and responding to the needs of a clientele within a constantly changing society.

The year 1982 will be a challenging one for Provigo. It will be a year of carefully measured expansion and progress.

Antoine Turmel
Chairman of the Board and Chief Executive Officer

April 26, 1982.

Report from the President

The results for the fiscal year ended January 30, 1982, consisting of 52 weeks compared to 53 weeks last year, reflect a satisfactory increase in sales and a decline in net profits.

Sales reached a new high of almost $3.3 billion, an increase of 25.2% compared to $2.6 billion the previous year. When the fifty-third week in the previous year is excluded, the increase becomes 27.6%. Furthermore, by eliminating the sales from the 86 supermarkets acquired from Dominion in the Province of Quebec for a period of approximately six months, the increase in sales, on a basis comparable to the previous year, is 17.3%. This growth in our business is greater than the food-at-home price index of 11.4%, and the weekly food basket index of 7.3%, indicating clearly that Provigo acquired a stronger foothold and increased its share of the market during last year.

Net income was $19.6 million compared to $24.6 million the previous year, a decline of 20.3% or 18.6% if the 52 weeks of 1981-82 are weighted against the 53 weeks of 1980-81. After payment of dividends of $2.4 million to the holders of the non-participating preferred shares, net income is equivalent to 94¢ per common share compared to $1.29 last year. These results take into consideration the split of the common shares on a four for one basis and the issue of 2,000,000 common shares in July 1981. The earnings per share calculation is based on the weighted average of the common shares outstanding of 18,359,026 compared to 17,285,620 last year.

As stated by Mr. Turmel in his message, 1981 was a year of expansion, the greater part of which materialized from acquisitions. Evolving in this manner bears substantial additional costs. Taking possession and converting the Dominion stores proved to be a complex undertaking and more expensive than anticipated; and these units, as a whole, sustained operating losses. The performance has been less favourable than expected in the first year. Nevertheless, the network of operations and real estate acquired represent a group of assets with excellent profit potential for many years to come. The other recent acquisitions, Abattoir St-Valérien Inc. and Sports Experts Inc., also went through a difficult year; the first company was affected by an unstable pork market and the second by poor weather conditions and a rationalization of its distribution system. In spite of these obstacles, the existing operations of the Provigo group in Quebec, as a whole, continued to progress and produce satisfactory results.

In June 1981, M. Loeb, Limited began operating a new 39,750 square foot warehouse in Hull. This division was established to serve more effectively the needs of the independent retailers in the Ottawa Valley. In general, this company's net income improved. In May 1981, Horne & Pitfield Foods Limited opened its new distribution centre of 325,000 square feet in Edmonton. This undertaking required an investment of over $9 million. Moving and start-up costs contributed to lower net income for this subsidiary. During the year, National Drug Limited amalgamated its two Toronto warehouses into one in order to improve the efficiency of this operation. As well, Market Wholesale Grocery Co.'s new distribution centre in Santa Rosa, California, has been completed, and the final stages prior to full operation are proceeding. Both Market Wholesale and National Drug increased their net incomes last year.

The consolidated results would have been more satisfactory, in spite of certain difficulties encountered during fiscal 1982, had it not been for the negative effects of our increased cost of capital. Having had to incur very high interest rates together with additional capital requirements during this period, the Company was burdened with higher interest costs of $13.8 million, elevating the total to $26.8 million for the year.

Consistent with last year's Annual Report, we have presented this year's results on a segmented and geographical basis as recommended by the Canadian Institute of Chartered Accountants. Because of the numerous inter-segment and inter-company transactions among the wholesale and retail operations, the Board of Directors decided to group these operations together in one segment under Food Distribution. The segments, Drug Distribution and Other Operations, are also presented in this Report, as are the geographic segments — Canada and the United States.

During the year, capital expenditures, excluding $4.3 million of capitalized leases, rose to $39.3 million, compared to the budget figure of $38.8 million. Excluded from these figures is the capital outlay for the purchase of most of the assets of Dominion Stores Limited in Quebec. The cost of this transaction amounted to $95 million and has been financed as follows: $31 million from the net proceeds of the issue of common shares; $34 million from working capital; and $30 million from the additional long-term debt of $47 million arranged with financial institutions during the year. Bearing interest equal to the bank prime rate, this debt comes due between 1983 and 1987, and is prepayable at the option of the Company.

As stated in last year's Annual Report, the development of new retail stores will be considerably reduced in order to invest more time, effort and capital towards the modernization of existing units or recent acquisitions. This strategy, in the context of the present difficult economic conditions and their effect on investment, will result in a considerable reduction in the current year's budget for capital expenditures, set at $27 million, compared to the previous year. In order to reduce them even further, these expenditures will receive close scrutiny throughout the year. As at January 30, 1982, working capital amounted to $35 million representing a ratio of current assets to current liabilities of 1.11:1. Shareholders' equity was $153 million and book value per common share was $6.81.

The food-at-home index edged downwards slightly during the second half of 1981 because of weak markets for beef, pork, fresh produce, sugar and coffee. According to economic analysts, we should expect a reduction in the overall rate of inflation to about 11%, and to a slightly lower rate for food. Confronted with an unsteady economy, an abnormal level of unemployment and high interest rates, the consumer is having to adopt a different approach to food shopping. We are seeing, for example, a greater interest in less expensive products and in items being promoted at reduced prices. This new awareness is reflected by a slower rate of increase in sales volume, and necessitates a different approach to marketing in order to attract and satisfy consumers who are more conscious of their food budget.

Consequently, our marketing people throughout the Company, in wholesale and retail food distribution, drug distribution and other operations, have assumed as a priority the responsibility to monitor continuously their programs and methods, instituting modifications where needed, in order to identify and fulfill the needs of each individual market area, especially those involving our corporate stores and independent retailers. Operating costs, meanwhile, must be reduced and controlled judiciously, while productivity must be improved. This can only be achieved with the co-operation of employees and unions who must know by now that it is impossible to increase salaries continuously over a prolonged period of time at rates in excess of the general consumer price index without jeopardizing the financial health of a company.

Cost control programs will permit us to offer goods and services at the lowest possible price and still produce reasonable profit margins from both conventional stores and discount warehouse markets. Our experience to date in this regard, is very encouraging and consequently, this attitude has become a part of the Provigo spirit so that our retail and wholesale networks can respond to the consumers continuously changing tastes and habits. With the price of meals away from home rising to unprecedented levels, we will be directing our attention to the rearrangement of the space inside certain stores in order to set up special counters offering food on a ready-to-serve and eat basis.

The economic slowdown in 1981 has affected our operations in different degrees depending on the region. Taking economic indicators into consideration, it is difficult to be very optimistic for 1982. At least in this situation, we can afford to be reasonably hopeful because the Company's principal activities include the provision of essential goods to the public. Consequently, we are somewhat less vulnerable than other types of business or industry.

Furthermore, we foresee that the wholesale food distribution operations will produce respectable results in Quebec, Ontario, Alberta and California, because of their new buildings and equipment, and their ability to adapt to change. The retail food distribution operations will show moderate improvement, especially the stores acquired during last year. The meat division, because of firmer markets in beef and pork, should produce more favourable results this year. The drug distribution segment is performing well due to the renewed strength and vitality of their affiliated members — the independent pharmacists. The beginning of the year looks encouraging for the general merchandise, sporting goods and leisure wear divisions. As for the sale of petroleum products, although there has been a decline in the quantities consumed, we remain optimistic due to the nature, availability and flexibility of our network.

In the area of development and expansion, we do not expect to undertake any major projects this year. As stated by the Chairman of the Board and Chief Executive Officer, 1982 will be a year of consolidation and austerity. The only significant developments will be the start-up of Market Wholesale Grocery Co.'s new 245,000 square foot distribution centre in Santa Rosa, California, in the spring and the amalgamation of three warehouses into one distribution centre of 150,000 square feet in the Montreal region this fall.

The much appreciated co-operation of our loyal personnel and the support of a growing clientele are the major factors that enable the Company to succeed. With the strength of our human resources, the dynamism of our retailers and our plans to realize our potential, the future for the Company appears promising.

Pierre H Lessard

Pierre H. Lessard
President and
Chief Operating Officer

April 26, 1982.

Food Distribution

Highlights	**1982** (52 weeks)	1981 (53 weeks)	%
	(thousands of dollars)		
Sales	**$2,759,992(1)**	$2,239,096(1)	23.3
Segment operating profit	**$ 50,525**	$ 53,864	(6.2)
Number of employees			
Full-time	**7,772**	5,362	
Part-time	**3,887**	2,294	
	11,659	7,656	
Distribution network			
Distribution centres	**38**	32	
Cash & Carry depots	**77**	77	
Affiliated stores:			
Provigo, IGA, Provibec, Jovi, M/M, Mayfair, Triple S	**1,127**	1,160	
Franchised convenience stores:			
Provi-Soir, Pinto, Red Rooster	**423**	390	
Corporate stores:			
Provigo supermarkets	**124**	47	
IGA and Food Giant supermarkets	**34**	31	
Square footage	**2,975,193**	1,384,915	
Discount foodstores	**20**	12	
Square footage	**237,393**	150,720	

(1) Net after inter-segment sales.

This segment of the business encompasses the wholesale and retail food operations. The wholesale business supplies goods and services to food retailers and food service organizations, whereas the retail business consists of the sales from retail stores owned by the Company. These are known as "corporate stores".

The food operations represent 84% of the Company's total sales. During the year, expenditures for fixed assets, excluding the purchase of most of the assets of Dominion Stores Limited in Quebec, amounted to $26.6 million, compared to $19.7 million for the previous year. For fiscal 1982-83, capital expenditures will amount to approximately $21 million.

Provigo

In Quebec, the food distribution businesses of Provigo Inc. are mainly the responsibility of two corporations: Provigo (Distribution) Inc. and Provigo (Retail) Inc.

The year's sales surpassed the objectives set for Provigo (Distribution) Inc., and the results, on the whole, were satisfactory.

The wholesale network is spread throughout almost all Quebec, and includes ten large distribution centres for grocery products, plus a meat processing and distribution plant, one abattoir, two centres for fresh produce, and one for frozen foods — a total of fifteen distribution centres, up from ten last year. The five new centres, all ex-Dominion, include three warehouses for general groceries and two that specialize in certain items, one for frozen foods and the other for fresh fruit and vegetables.

In line with the Company's policy to decentralize its operations, Provigo (Distribution) Inc. formed two new divisions out of the newly acquired wholesale operations. Known as the Côte-des-Neiges divisions, one handles grocery products and frozen foods, and the other, fresh fruit and vegetables. Within the context of this reorganization, Mr. Reynald Gagné, previously General Manager of the Quebec Division, was named General Manager of Provigo (Distribution) Inc. — Côte-des-Neiges Division, and Mr. Jacques Langlois succeeded Mr. Gagné as General Manager, Provigo (Distribution) Inc. — Quebec Division. Mr. Jean-Claude Desrochers was appointed General Manager — Produce Divisions of Provigo (Distribution) Inc.

These fifteen regional centres regularly supply 2,780 retailers, of

whom 685 are affiliated under the Provigo, Provibec and Jovi banners. In addition, there are 31 Presto self-service Cash & Carry warehouses whose role it is to supply the many grocers and retailers from several sectors of commercial activity.

During the year, improvements were made to existing facilities. In the Quebec division warehouse, the cold storage area was expanded. The offices in Chicoutimi were enlarged and improved, and a new computer centre was installed in Côte-des-Neiges, in conjunction with numerous other improvements. Additionally, the Presto self-service Cash & Carry warehouse in Thetford Mines was moved to a new site and the one in Vanier was closed. The meat division, despite a difficult market in this sector of the economy, particularly for pork, increased its sales by 19%. Export sales also rose significantly to reach 15.5 million pounds. In February 1981, this division completed the integration of the operations of Abattoir St-Valérien Inc. acquired by Provigo (Distribution) Inc.

As well, this company owns two warehouses specialized in the storage and distribution of fresh produce. These warehouses, one in Quebec and another in Montreal, operate with the most modern equipment in order to ensure a regular supply of top quality produce to the customer.

The Provigo group of supermarkets, both corporate and affiliated stores, are the responsibility of Provigo (Retail) Inc. All these stores are supplied by Provigo (Distribution) Inc. which services, as well, the group of affiliated stores under the Provibec, Jovi and Provi-Soir banners.

The Provi-Soir division continued to grow, producing one of its most satisfying years to date. Sixteen new Provi-Soir convenience stores were opened, eight of which are twinned to self-service gas islands. There are now 169 stores and 95 of these are twinned to self-service gas stations; and 52 operate 24 hours per day. As well, food sales increased by 27%. In order to fulfill the needs of consumers, important changes have been implemented to the Provi-Soir interior design and layout. To date, ten new stores have been built and equipped to reflect this new design.

Provigo (Retail) Inc. has undergone a major expansion as a result of integrating the 86 Dominion, Econoprix and ABC supermarkets. Since most of the supermarkets are located in Montreal, a new retail division, Côte-des-Neiges, was established under the direction of Mr. Réal Brouillette as General Manager. This integration began in June and lasted until August. Subsequently, numerous management and communication programs were instituted to familiarize the management and employees with the Provigo organization and "modus operandi''. These steps are intended to improve service to customers, raise productivity and increase profitability.

The company operates 124 corporate supermarkets under the Provigo banner and 17 AVA, EA, Econoprix and ABC discount stores for a total of 141, compared to last year's 56 units — 47 Provigo supermarkets and nine discount foodstores. The total retail space of these units is 2,532,013 square feet. Of the 86 newly acquired stores, 77 became Provigo supermarkets, and nine remained discount stores — six Econoprix and three ABC. During the year, two new supermarkets, one in Quebec City and another in Beauport, were opened. Two others were closed, another was transferred to Loeb and an EA discount store was converted to a Provigo supermarket.

In addition to the corporate stores, there are 122 affiliated Provigo supermarkets, 14 more than last year. These businesses are owned by independent grocers who have complete access to all the services available to the major group of stores under the Provigo banner. And they have shown marked progress during the year.

M. Loeb, Limited

The wholesale division of this company includes operations in Quebec, Ontario and in the Eastern United States. Seven regional distribution centres handle groceries, fruit, vegetables, and frozen foods; and one centre distributes general merchandise. In addition there are 30 self-service Cash & Carry warehouses completing this network, which supply the affiliated IGA and M/M retailers, Pinto franchisees, independent grocers and food service companies.

M. Loeb, Limited supplies 163 franchised retailers under the IGA and M/M banners. The effort made last year to improve the image of the IGA group and to increase its market share has been continued. During this period, many stores of this group in the Amos, Ottawa, London and Sudbury regions were enlarged and relocated.

A new division of the company under the direction of Mr. Denis Lemay, General Manager, has been established in Hull to supply Pinto convenience stores and independent retailers in the Ottawa Valley.

There are now 114 franchised Pinto convenience stores, a network that will continue to grow in 1982-83. This type of store responds well to the public's needs and enjoys a steadily growing market.

Loeb Variety Sales, which handles general merchandise, experienced a good year as reflected by both sales and net income.

The retail division of M. Loeb, Limited includes 22 corporate stores, of which 19 are corporate supermarkets under the IGA banner, and three are discount foodstores known as Orange Stores. There were 18 IGA supermarkets and three discount foodstores last year. The total retail space of these stores is 415,116 square feet. Notwithstanding the intense competition within the regions supplied by Loeb, the results of the retail business, on the whole, were satisfying.

M. Loeb, Limited's performance showed marked improvements over the previous year despite the nature of the economy and an unstable market. This degree of success was achieved by increasing sales, tightening control and cutting costs.

Horne & Pitfield Foods Limited

In May 1981, a modern distribution centre of 325,000 square feet was inaugurated in Edmonton. Including this new centre, the network consists of eight regional distribution centres and seven self-service Cash & Carry warehouses, all of which are located in Alberta. This system adequately fulfills the demands from retailers for services and supplies. During the year, a self-service Cash & Carry warehouse in Edmonton was moved to a new site in a larger modern building of 9,200 square feet. In Fort McMurray, construction started on another new self-service Cash & Carry warehouse.

The wholesale sector of this subsidiary supplies 279 affiliated members operating under the IGA, M/M, Mayfair and Triple S banners, each store being an individual proprietorship. As well, two new IGA stores were opened, one of which is a 24,000 square foot "combo" store in Vermilion. Three stores were enlarged while three others were renovated.

The group of Red Rooster convenience stores experienced another excellent year as 21 were opened. There are now 140 Red Rooster convenience stores, 41 of which are twinned to self-service gas stations.

The retail division of Horne & Pitfield owns 15 corporate supermarkets, 14 of which are under the IGA banner and one is a mass

merchandising supermarket in Lethbridge known as Food Giant. The total retail space of these stores is 265,457 square feet. A new IGA supermarket of 23,000 square feet was opened in the Clareview district in Edmonton and three stores were renovated.

For Horne & Pitfield Foods Limited, 1981-82 was a year of expansion and development, and a period which ended with satisfying results. With start-up costs of the new additions completely absorbed and the operations in good order, we expect this subsidiary to have an interesting year in 1982-83.

Market Wholesale Grocery Co.
This company operates solely as a wholesaler within the north-west area of the state of California. In Santa Rosa, construction of the new 245,000 square foot distribution centre has been completed and the installation of equipment is proceeding so that operations can begin at the end of April 1982. The company's network, including the new centre, consists of seven major distribution centres — five for groceries and two for frozen foods — and nine self-service Cash & Carry warehouses.

A rationalization of operations has resulted in being able to reduce costs while providing better service to independent retailers. Sales and net income of this company rose beyond the levels reached last year.

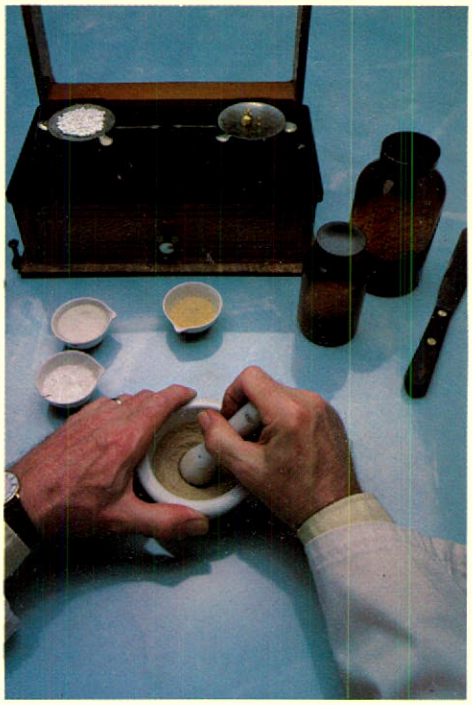
As for labour relations, the management of all our food operations has gone to great lengths to create a favourable environment and to foster an open dialogue with employees and their representatives. This approach has been fruitful, as shown by the results of negotiations of 62 collective agreements which came due during 1981-82. Of this number, 58 were settled through normal negotiation procedures, including an important agreement with more than 3,000 employees of the new Provigo supermarkets. Only four negotiations resulted in work stoppages. The total number of employees affected by these conflicts represents less than 3.6% of the total number of employees in this segment of the Company.

For 1982-83, we expect that the Quebec operations will improve, the Ontario based companies will maintain their rate of progress, our business in Alberta will be well positioned and the one in California should hold its own. Both wholesale and retail operations in fiscal 1982-83 have set promising and realistic objectives, in line with their new facilities and marketing and merchandising programs.

Drug Distribution

Highlights	1982 (52 weeks)	1981 (53 weeks)	%
	(thousands of dollars)		
Sales	**$331,137(1)**	$275,818(1)	20.1
Segment operating profit	**$ 8,311**	$ 6,499	27.9
Number of employees	**753**	678	
Distribution network			
Distribution centres and agencies	**12**	12	
Affiliated drugstores: ARP, WDM, Promoprix	**311**	298	
Corporate drugstores			
Good Neighbor Drug Mart	**9**	9	
Square footage	**42,550**	42,550	

(1) Net of inter-segment sales.



This activity represents 10% of the Company's total sales and encompasses the sale of drug products, proprietary medicines and other related products. The distribution network is made up of 12 warehouses, nine corporate retail drugstores, and 311 affiliated drugstores located mainly in Ontario, Quebec and the Maritimes. These operations are carried out by Provigo's two wholly-owned subsidiaries: National Drug Limited and M. Loeb, Limited - Montreal Division known as Georges Painchaud Reg'd. During the year, expenditures for fixed assets amounted to $978,000 compared to $305,000 last year, and plans call for $605,000 for fiscal 1982-83.

National Drug Limited
Despite the present economic predicament and a difficult market, this company experienced a good year. Because of tight controls, improved inventory procedures, more effective use of assets in general, and a greater market penetration, both sales and net income have increased.

The Toronto division consolidated its two warehouse operations into one and installed a new computer. Beginning in early 1982, this computer will provide very useful information in the development of product merchandising plans and improve communications between the distribution centre and its group of retailers of drug products.

There are nine Good Neighbor corporate drugstores, the same number as last year, and 196 ARP affiliated drugstores and Western Drug Marts.

During the year, an emphasis will be placed on the programs which ensure that Good Neighbor, ARP and WDM voluntary groups respond to the needs of consumers by supplying a broad range of products and services at the lowest possible prices.

In 1981-1982, these operations showed progress. The dynamic nature, experience, planning, marketing and management skills of this company bode well for the future.

M. Loeb, Limited
(Georges Painchaud Division)
This division continued to progress during the year. New service programs were created for its affiliated drugstores in order to assist proprietors in improving the management of their businesses.

In addition, a new initiative aimed at business development and marketing was instituted and given top priority to increase the public's awareness of the Promoprix name, and to help the independent retailers attract a greater share of the market. As a result of these efforts, the voluntary group of Promoprix affiliated retailers has grown from last year's 97 members to 115 this year. Both the wide range of products available and the dynamic nature of the members of this group of independents are the principal factors of this division's present rate of growth.

By using the latest management tools and techniques, the drug distribution operations can achieve greater efficiency in preparing orders and making deliveries. This improvement solidifies the wholesaler's relationship with the manufacturer and retailer. In addition to the merchandising and marketing programs mentioned previously, as well as the management plans to realize the business potential of these operations, the outlook is encouraging for this segment of the Company.

Other Operations

Highlights

		1982 (52 weeks)	1981 (53 weeks)	%
		(thousands of dollars)		
Sales		$ 202,831(1)	$ 116,416(1)	74.2
Segment operating profit		$ 12,274	$ 9,746	25.9
Number of employees	Full-time	353	258	
	Part-time	161	127	
		514	385	
Sporting and leisure goods				
Distribution centre		1	—	
Associated retailers		80	—	
Petroleum products, Gasoline stations:				
Top Valu Gasmarts, Provi-Soir		214	188	
Real estate				
Wholly and jointly-owned		(square feet)		
Land in use		15,727,495	14,592,701	
Land held for future development		10,168,708	6,715,789	
Buildings		4,152,792	3,664,221	

(1) Net of inter-segment sales.

These operations of the Company, — the sale of petroleum products, sporting goods and leisure time apparel, real estate development, property management and transportation — are grouped into this segment which accounts for 6% of total sales. Planned expenditures for fixed assets for these activities in 1982-83 amount to $5.6 million compared to $20.5 million in 1981-82, including $7.3 million in relation to the Dominion transaction.

Petroleum Products
This business involves the sale of all petroleum products from the self-service gas islands twinned to Provi-Soir stores, free-standing operations Top Valu Gasmarts and independent dealers. The sales of 41 gas stations attached to the Red Rooster convenience stores are not included in this group because of operational and administrative structures.

The number of self-service gas islands twinned to Provi-Soir stores, all located in Quebec increased from 87 to 95 units, and sales volume reached 213.2 million litres. Whereas last year we had 18 Provi-Soir stores twinned to self-service gas islands operating 24 hours per day, we have now 52 in all.

M. Loeb, Limited's Top Valu Gasmarts, located in Western Quebec and Ontario, consist of 119 gas stations of which 22 are independents. The volume of petroleum products sold by Top Valu rose to 234.4 million litres, an increase over the previous year.

Sporting and Leisure Goods
Sports Experts Inc. which was acquired in February 1981, is an organization of 80 associated retailers under the Sports Experts banner. All stores are supplied by one large distribution centre in Laval.

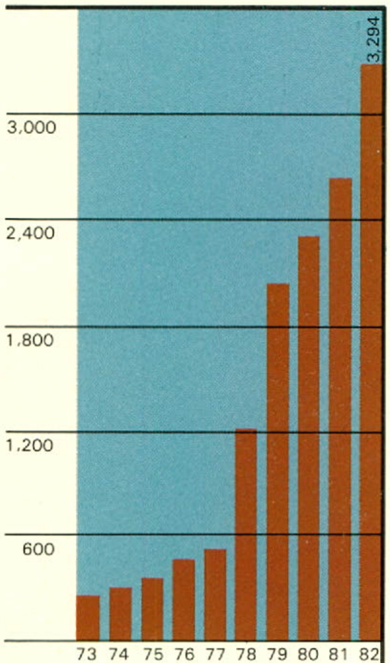
Adverse weather conditions and a poor economic environment affected this company's results during last year.-Nevertheless, many changes were carried out in order to revitalize this operation. Through association with the international INTERSPORT organization, Sports Experts is able to expand its range of goods and services to its associated members. The main objective of the Sports Experts group is to increase its market share in Quebec by recruiting new members under its banner and supplying independent retailers.

Real Estate
Several companies within Provigo Inc. are grouped in this segment, notably "Les Placements Denault Inc." and "Les Promenades Montarville Inc."; M. Loeb's subsidiary, Shoppers City; and Food Giant Markets Ltd. of Horne & Pitfield Foods Limited.

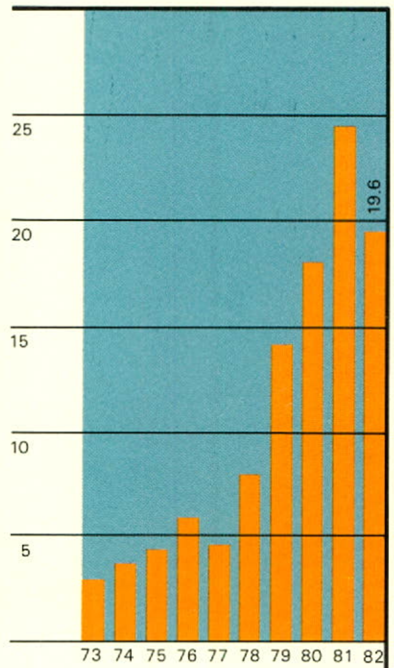
Because neither high interest rates nor the state of the economy in general are conducive to development projects, we do not expect any major expenditures in the real estate sector for 1982-83. During the current year, this sector will direct its efforts mainly towards consolidating and managing the properties under its administration.

Various Services
Other important operations in many of the divisions provide essential services and complete the operational structure of the Provigo group. Trucking is carried out by three companies, Capital City Transport Limited, Lobem Transport Inc. and Canadian Western Brokers Company Limited. Printing services are supplied by workshops set up in most of the major subsidiaries. Additionally, there are other departments servicing mainly our retail operations with the specialized skills needed to prepare the plans for store renovation, lay-out and equipment purchasing.

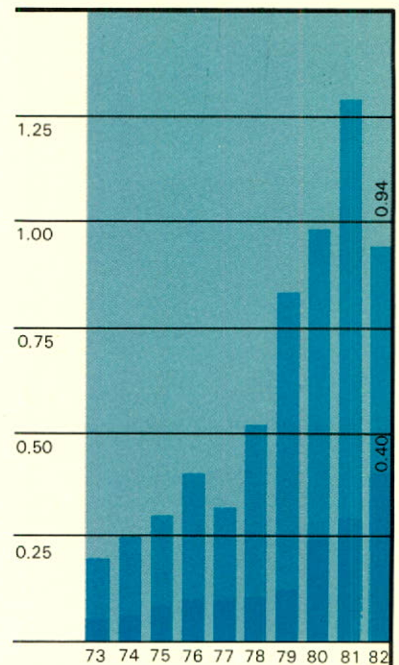
These services assist in the overall reduction of operating costs, provide in-house services that are more suited to our particular needs, and contribute to achieving a greater degree of efficiency throughout the Company.



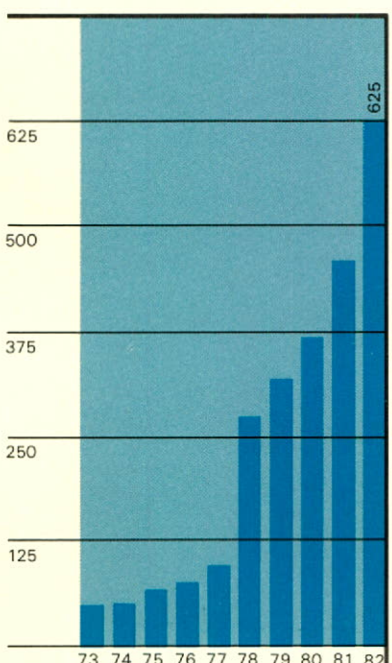
Net Sales (millions of dollars)



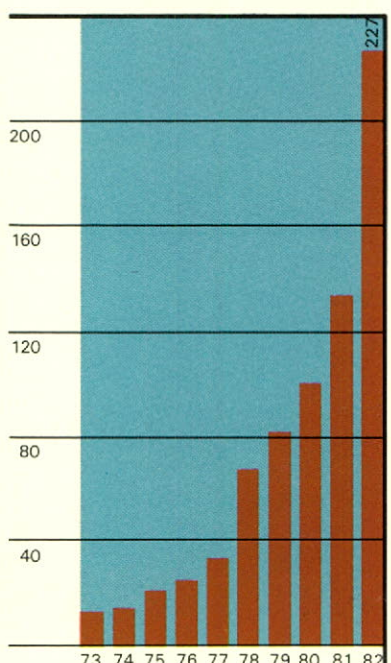
Net Income (millions of dollars)



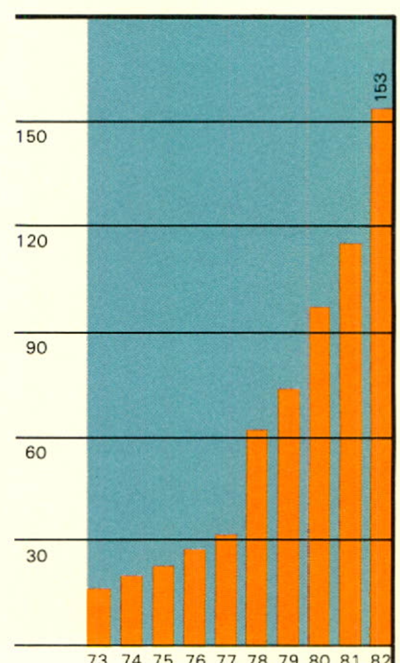
Net Earnings per Common Share (dollars)
Dividends per Common Share (dollars)



Total Assets (millions of dollars)



Fixed Assets (millions of dollars)



Shareholders' Equity (millions of dollars)

Consolidated Statement of Income

Year ended January 30, 1982
(note 1 (i))

	1982	1981
	(thousands of dollars)	
Net sales	**$3,293,960**	$2,631,330
Cost of sales and operating expenses	**3,215,303**	2,559,958
Operating income before depreciation, amortization and interest	**78,657**	71,372
Depreciation, amortization and interest:		
Depreciation and amortization	**17,477**	11,795
Amortization of goodwill	**579**	441
Interest on long-term debt	**15,039**	8,243
Other interest	**16,398**	7,564
Investment income	**(4,640)**	(2,760)
	44,853	25,283
Operating income before income taxes	**33,804**	46,089
Income taxes:		
Current	**16,333**	18,796
Deferred	**(2,205)**	2,293
	14,128	21,089
Income before the following items:	**19,676**	25,000
Other income (note 7)	**7**	191
Gain (loss) on translation of foreign currencies	**(46)**	321
Minority interest	**—**	(917)
Net income for the year	**$ 19,637**	$ 24,595
Earnings per common share (note 8)	**$0.94**	$1.29

See accompanying notes

Consolidated Statement of Retained Earnings

Year ended January 30, 1982
(note 1 (i))

	1982	1981
	(thousands of dollars)	
Balance, beginning of year	**$72,274**	$54,822
Net income for the year	**19,637**	24,595
	91,911	79,417
Deduct:		
Dividends paid on preferred shares	**2,479**	2,173
Dividends paid on common shares ($0.40 per share in 1982; $0.29 in 1981)	**7,313**	4,970
Share issuance expenses, net of income taxes of $934,000 (note 6)	**1,085**	—
	10,877	7,143
Balance, end of year	**$81,034**	$72,274

See accompanying notes

Consolidated Balance Sheet

January 30, 1982

Assets	1982	1981
	(thousands of dollars)	
Current assets:		
Cash and deposit certificates	**$ 4,971**	$ 6,838
Accounts receivable	**125,152**	113,002
Merchandise inventories	**215,036**	169,952
Deposit (note 9)	**—**	5,000
Prepaid expenses	**7,598**	3,919
Assets held for realization	**254**	1,841
Total current assets	**353,011**	300,552
Investments, at cost:		
Marketable securities (quoted market value $3,502,000; 1981 — $6,190,000)	**7,092**	7,235
Long-term receivables and other	**5,630**	3,435
	12,722	10,670
Fixed assets (note 2):		
Land, buildings and equipment, at cost	**282,003**	178,787
Less accumulated depreciation	**70,068**	56,066
	211,935	122,721
Leasehold improvements, at cost less amortization	**14,808**	10,607
	226,743	133,328
Other assets:		
Goodwill, at cost less amortization	**24,533**	14,594
Deferred charges, at cost less amortization	**1,350**	1,633
Future tax benefits from prior years' losses carried forward	**6,166**	—
	32,049	16,227
	$624,525	$460,777

On behalf of the Board:
Antoine Turmel, Director
Pierre H. Lessard, Director

Liabilities and Shareholders' Equity	**1982**	1981
	(thousands of dollars)	
Current liabilities:		
Cheques issued and outstanding — net	**$ 22,638**	$ 25,278
Bank loans and acceptances (note 3)	**75,515**	51,017
Accounts payable and other liabilities	**201,195**	157,144
Amount payable upon acquisition of minority interest	**—**	5,863
Income and other taxes payable	**13,875**	17,254
Current portion of obligations under capital leases	**1,606**	916
Current portion of long-term debt	**3,052**	4,726
Total current liabilities	**317,881**	262,198
Obligations under capital leases (note 4)	**27,363**	5,183
Long-term debt (note 5)	**116,567**	71,546
Deferred credits:		
Deferred income taxes	**9,239**	6,986
Other	**234**	258
	9,473	7,244
Shareholders' equity:		
Capital stock (note 6)	**72,207**	42,332
Retained earnings	**81,034**	72,274
	153,241	114,606
	$624,525	$460,777

See accompanying notes

Consolidated Statement of Changes in Financial Position

Year ended January 30, 1982
(note 1 (i))

	1982	1981
	(thousands of dollars)	
Source of funds:		
Operations —		
Net income for the year	**$ 19,637**	$24,595
Charges not affecting working capital:		
Depreciation and amortization	**18,056**	12,236
Deferred income taxes	**(2,205)**	2,293
Minority interest	**—**	917
Other	**352**	323
Funds from operations	**35,840**	40,364
Realization of investments	**910**	1,049
Sale of fixed assets	**2,165**	1,118
Net increase in obligations under capital leases	**2,755**	2,004
Long-term debt	**46,854**	31,562
Issue of common shares, net of issuance expenses	**30,981**	19
Total source of funds	**119,505**	76,116
Application of funds:		
Acquisition of assets net of working capital acquired (note 9)	**62,783**	—
Acquisition of other fixed assets	**41,524**	47,186
Acquisition of other goodwill	**40**	2,487
Investments	**2,962**	1,530
Decrease in long-term debt	**2,503**	8,241
Decrease in minority interest	**—**	7,788
Dividends paid on preferred and common shares	**9,792**	7,143
Redemption of preferred shares	**3,125**	—
Total application of funds	**122,729**	74,375
Increase (decrease) in working capital	**(3,224)**	1,741
Working capital, beginning of year	**38,354**	36,613
Working capital, end of year	**$ 35,130**	$38,354

See accompanying notes

Auditors' Report

To the Shareholders of Provigo Inc.:

We have examined the consolidated balance sheet of Provigo Inc. as at January 30, 1982 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us, and as shown by the books of the company, these consolidated financial statements are drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at January 30, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Canada,
April 2, 1982.

Clarkson Gordon
Chartered Accountants

Notes to Consolidated Financial Statements

January 30, 1982

1. Summary of significant accounting policies

The consolidated financial statements have been prepared within the framework of the accounting policies summarized below and are in accordance with accounting principles generally accepted in Canada, consistently applied and conform in all material respects with International Accounting Standards.

(a) Consolidation

The consolidated financial statements include the accounts of Provigo Inc. and its subsidiaries.

(b) Translation of foreign currencies

The accounts of subsidiaries in the United States have been translated to Canadian dollars as follows: current assets and current liabilities, at the year-end exchange rate; all other assets and liabilities, at the exchange rate prevailing at the acquisition or transaction date; revenues and expenses (other than depreciation and amortization which are translated at the rate applicable to the related fixed assets), at the average exchange rate for the year. Foreign exchange gains or losses arising from translation are included in the statement of income.

(c) Merchandise inventories

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

(d) Assets held for realization

These assets are valued at the lower of cost and net realizable value.

(e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and amortization.

The company follows the policy of capitalizing assets leased from others with respect to capital leases entered into after January 27, 1979.

Fixed assets, including assets under capital leases, are depreciated using the straight-line method at annual rates of 2 1/2% to 5% for buildings and 10% and 12 1/2% for equipment. Automotive equipment is depreciated using the diminishing balance method at an annual rate of 30%. Leasehold improvements are amortized over the terms of the related leases plus the first renewal option period, if any.

(f) Goodwill

Goodwill is amortized on a straight-line basis over periods not exceeding 40 years.

(g) Deferred charges

Deferred charges are amortized on a straight-line basis over the life of the related items.

(h) Income taxes

Income taxes are accounted for on the tax allocation basis. Under this basis, timing differences arising between the time of recognition of certain revenue and expense items in the computation of accounting income and their recognition in the computation of taxable income, give rise to deferred income taxes.

(i) Financial year

The company's financial year ends on the last Saturday of January. Accordingly, the year ended January 30, 1982 comprises 52 weeks of operations while the preceding year ended January 31, 1981 comprised 53 weeks of operations.

2. Fixed assets

	1982			1981
	(thousands of dollars)			
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
Land	**$ 25,928**	**$ —**	**$ 25,928**	$ 13,543
Buildings	**77,752**	**10,386**	**67,366**	54,811
Equipment	**129,599**	**56,346**	**73,253**	48,481
Fixed assets under capital leases (consisting mainly of buildings)	**48,724**	**3,336**	**45,388**	5,886
	$282,003	**$70,068**	**211,935**	122,721
Leasehold improvements			**14,808**	10,607
			$226,743	$133,328

3. Bank loans and acceptances

The assets of certain subsidiaries have been pledged as security against current and long-term bank loans and acceptances aggregating $35,835,000 (1981 — $40,756,000).

4. Obligations under capital leases

The obligations under capital leases were determined using interest rates varying from 11.25% to 23.0%. Minimum lease payments under these leases aggregate $123,979,000 including $95,010,000 of interest, and are payable as follows: 1983 — $6,281,000, including $4,675,000 of interest; 1984 — $5,872,000; 1985 — $5,378,000; 1986 — $4,887,000; 1987 — $4,196,000; 1988 and thereafter — $97,365,000.

The interest charged to income in 1982, relating to these obligations, amounts to $3,276,000 ($645,000 in 1981) and is included in interest on long-term debt.

5. Long-term debt

	1982	1981
	(thousands of dollars)	
6% Sinking fund debentures, Series A, maturing in 1985	**$ 486**	$ 512
9 1/2% Sinking fund debentures, Series B, maturing in 1991	**2,000**	2,000
11 1/4% Sinking fund debentures, Series C, maturing in 1995 (retractable in 1985 at the option of the holders)	**9,723**	9,725
Sinking fund debentures bearing interest at prime rate, Series D, maturing in 2000*	**20,000**	20,000
Bank loans bearing interest at prime rate ($10,000,000 bearing interest at prime rate plus 1/4%), maturing from 1983 to 1987*	**66,000**	25,775
Notes, mortgages and other long-term borrowings, bearing interest at rates between 6% and prime rate plus 1/4% maturing at various dates to 1998	**21,410**	18,260
	119,619	76,272
Less instalments due within one year included in current liabilities	**3,052**	4,726
	$116,567	$71,546

*Prepayable at the option of the company

Minimum annual instalments on long-term debt due in the next five years are approximately as follows: 1983 — $3,052,000; 1984 — $23,756,000; 1985 — $20,348,000; 1986 — $14,502,000; 1987 — $16,686,000.

6. Capital stock

Pursuant to supplementary letters patent issued to the company on May 27, 1981, all issued and unissued common shares without par value in the capital of the company were subdivided on a four for one basis and the number of authorized common shares of the company was increased by 12,000,000 additional common shares. In addition, 125,000 Series A preferred shares of a par value of $25 each, redeemed by the company on March 1, 1981 pursuant to mandatory redemption provisions, were cancelled.

The share subdivision has been given retroactive effect in these financial statements with respect to earnings and dividends per common share and to the number of common shares issued, the number of common shares reserved and of options granted under the stock option plan of the company.

During the year, the company issued 2,000,000 common shares without par value at a price of $16.50 per share. The issuance expenses amounting to $2,019,000 were charged to retained earnings net of income taxes of $934,000.

As of January 30, 1982, the capital stock of the company consists of:

	1982	1981
	(thousands of dollars)	
Authorized:		
1,875,000 First preferred shares with a par value of $25 each		
40,000,000 Common shares without par value		
Issued and outstanding:		
875,000 Preferred shares, Series A (1981 - 1,000,000)	**$21,875**	$25,000
19,293,092 Common shares (1981 - 17,293,092)	**50,332**	17,332
	$72,207	$42,332

The holders of the Series A preferred shares are entitled to receive a quarterly preferential cumulative cash dividend equal to one half of the bank prime rate plus 1 1/2%. In addition, the company is obligated to redeem for cancellation 125,000 such shares, at their par value, on March 1 of each of the years 1982 to 1988 inclusive.

As at January 30, 1982, the company had reserved 92,000 common shares for issuance under a stock option plan of which 48,000 are under option to a director and senior officer at a price of $2.02 per share, which option expires on September 30, 1982. In addition, during the year, the company has reserved 300,000 common shares for issuance under an employee stock purchase plan.

7. Other income

Other income consists of net gains on the sale of fixed assets less related income taxes.

8. Earnings per common share

Earnings per common share have been computed by dividing the net income for the year, after deducting dividends accruing to the Series A preferred shares of $2,444,000 in 1982 ($2,237,000 in 1981), by the weighted average number of common shares outstanding during the year.

The exercise of the options referred to in note 6 would not have a material dilution effect.

9. Acquisitions

During the year, the company acquired substantially all the assets situated in the Province of Quebec of Dominion Stores Limited, engaged in the wholesale and retail distribution of food and 100% of the outstanding common shares of Sports Experts Inc., distributor of sporting goods and apparel, for a total consideration, including related costs, of $96,092,000 of which $95,040,000 relates to assets of Dominion Stores Limited. These acquisitions have been accounted for using the purchase method and the results of their operations have been included in the statement of income since the effective dates of their acquisition; between June 1st and August 31 for Dominion Stores Limited and February 1st for Sports Experts Inc.

The net assets acquired are as follows (thousands of dollars):

Working capital consisting mainly of merchandise inventories	$ 33,309
Fixed assets	71,533
Other assets	867
	105,709
Less: Obligation under capital leases	19,425
Long-term debt	670
	20,095
Net assets acquired at fair value	85,614
Excess of purchase price over fair value of net assets acquired	10,478
Total purchase consideration, including $5,000,000 paid in December 1980	$ 96,092
Financed by:	
Working capital	$ 35,111
Long-term bank loans	30,000
Issuance of common shares	30,981
	$ 96,092

10. Commitments and contingent liabilities

At January 30, 1982:

(a) Total basic commitments of the company under long-term operating leases (including capital leases not capitalized) amounted to $171,875,000, after deducting sub-leases of $156,821,000. The net annual rentals under these leases due in the next five years are approximately as follows: 1983 - $15,701,000; 1984 - $14,117,000; 1985 - $13,404,000; 1986 - $12,586,000; 1987 - $11,589,000. Had the company given retroactive effect to the capitalization of capital leases entered into before January 28, 1979, the following items would have been reflected in the balance sheet:

	1982	1981
	(thousands of dollars)	
Fixed assets	**$32,651**	$35,121
Current lease obligations	**$ 1,974**	$ 2,355
Long-term lease obligations	**37,674**	39,320
	$39,648	$41,675

The capitalization would not have a material effect on the net income for the year.

(b) The company had a commitment relating to discontinued operations in the United States to lease premises until December 31, 1992 at a basic rental cost, after deducting a sub-lease, of U.S. $379,000 per annum plus maintenance, security and other costs of approximately U.S. $150,000 per annum. Sub-lease opportunities are being actively pursued and management is unable at this time to determine whether or not any material loss will result. No provision has been made in the accounts for any potential loss.

(c) The company had guaranteed loans to third parties aggregating $7,890,000.

11. Pension plans

The company participates in different pension plans for its employees. Recent actuarial reports show no unfunded liability.

12. Remuneration of directors and officers

The aggregate direct remuneration paid or payable with respect to the 1982 year to the directors and senior officers of the company amounts to $1,336,000.

13. Comparative figures

Certain of the 1981 comparative figures were reclassified in order to conform with the presentation adopted in 1982.

14. Segmented information

The company's operations are carried on in Canada and the United States, and comprise the following industry segments:

Food distribution: the distribution of groceries, meat, produce and other related food products as well as tobacco and confectionery to independent retailers and the distribution of such products by company-owned food stores.

Drug distribution: the distribution of pharmaceuticals, proprietary and patent medicines and other drug store related products through a wholesale distribution network of warehouses, an agency operation and retail drug stores.

Other operations: all other operations, namely the retail sale of petroleum products in Quebec and Ontario, sporting goods distribution, and food related real estate development, property management and transportation.

Inter-segment sales are based on prices approximating cost.

The identifiable assets are those assets used in the company's operations of each segment. Corporate assets are principally cash, marketable securities, goodwill, and land and buildings held for future expansion.

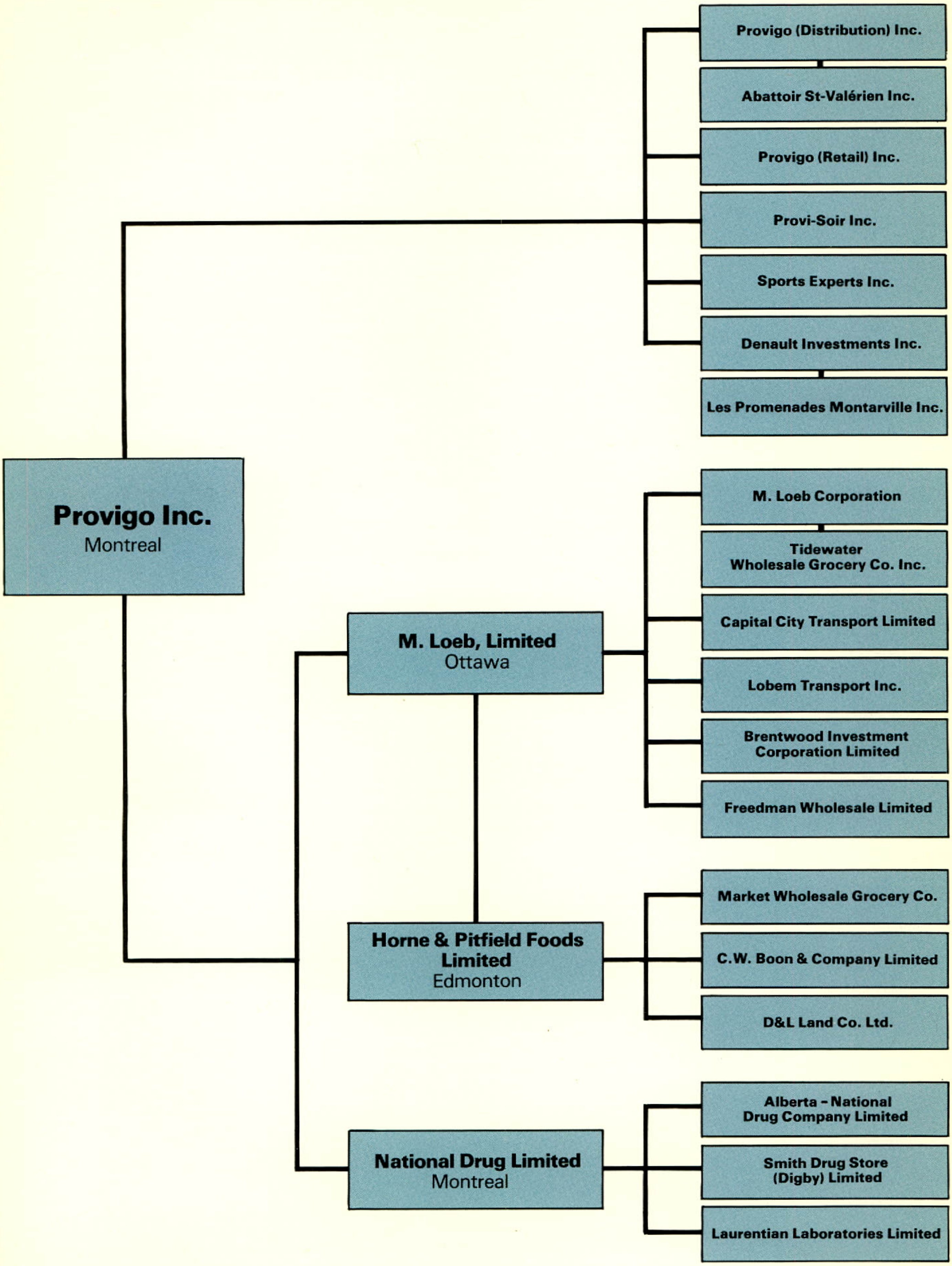
Industry segments
(thousands of dollars)

	Food distribution		Drug distribution		Other operations		Consolidated	
	1982	1981	**1982**	1981	**1982**	1981	**1982**	1981
Segmented Sales	**$2,760,037**	$2,239,109	**$331,443**	$276,080	**$205,359**	$118,174	**$3,296,839**	$2,633,363
Less inter-segment sales	**45**	13	**306**	262	**2,528**	1,758	**2,879**	2,033
Net sales	**$2,759,992**	$2,239,096	**$331,137**	$275,818	**$202,831**	$116,416	**$3,293,960**	$2,631,330
Segment operating profit	**$ 50,525**	$ 53,864	**$ 8,311**	$ 6,499	**$ 12,274**	$ 9,746	**$ 71,110**	$ 70,109
General corporate expenses							**10,509**	10,973
Interest on long-term debt							**15,039**	8,243
Other interest							**16,398**	7,564
Investment income							**(4,640)**	(2,760)
Operating income before income taxes							**$ 33,804**	$ 46,089
Identifiable assets	**$ 449,169**	$ 313,366	**$ 54,961**	$ 51,489	**$ 84,812**	$ 54,811	**$ 588,942**	$ 419,666
Corporate assets							**35,583**	41,111
Total assets							**$ 624,525**	$ 460,777
Capital expenditures	**$ 88,908**	$ 19,679	**$ 978**	$ 305	**$ 20,461**	$ 14,324		
Depreciation and amortization	**$ 12,943**	$ 8,144	**$ 437**	$ 338	**$ 3,438**	$ 2,744		

Geographic segments
(thousands of dollars)

	Canada		United States		Consolidated	
	1982	1981	**1982**	1981	**1982**	1981
Net sales	**$2,891,565**	$2,256,342	**$402,395**	$374,988	**$3,293,960**	$2,631,330
Segment operating profit	**$ 59,643**	$ 59,973	**$ 11,467**	$ 10,136	**$ 71,110**	$ 70,109
General corporate expenses					**10,509**	10,973
Interest on long-term debt					**15,039**	8,243
Other interest					**16,398**	7,564
Investment income					**(4,640)**	(2,760)
Operating income before income taxes					**$ 33,804**	$ 46,089
Identifiable assets	**$ 531,449**	$ 372,144	**$ 57,493**	$ 47,522	**$ 588,942**	$ 419,666
Corporate assets					**35,583**	41,111
Total assets					**$ 624,525**	$ 460,777

The Provigo Group of Companies



IGA Jovi provibec M/M provi-soir Pinto

RED ROOSTER FOOD STORE

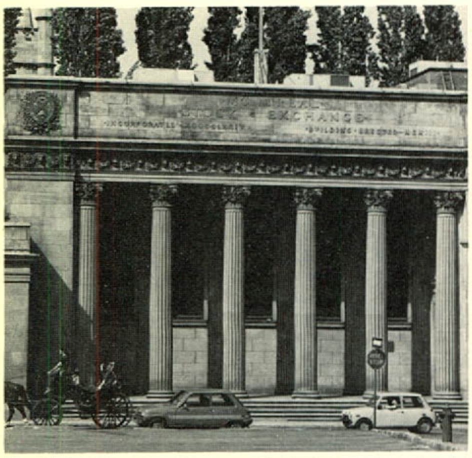
ASSOCIATED RETAIL PHARMACY

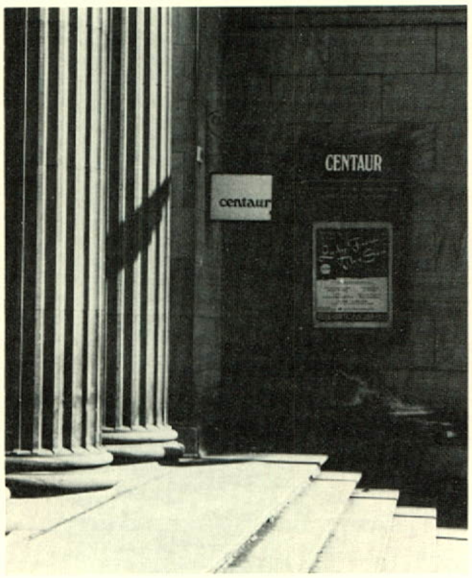
PROMOPRIX

Good Neighbor DRUG MART

Top Valu

sports/experts





...close to you

Provigo Inc.

Directors

■ Marcel Bélanger
Jean Boiteau
■ David A. Golden
Carl R. Goslovich
* Jean-Louis Lamontagne
* Pierre H. Lessard
André Marier
M. Brian Mulroney
* René Provost
Kenneth W. Quinn
Norman W. Robertson
* Gaston Roy
■ Guy St-Germain
* Antoine Turmel

** Member of the Executive Committee*
■ Member of the Audit Committee

Major Bankers

National Bank of Canada
The Toronto-Dominion Bank
The Royal Bank of Canada
The Mercantile Bank of Canada
Banque Nationale de Paris (Canada)
Union Bank-California

Auditors

Clarkson Gordon

Registrars and Transfer Agents

General Trust of Canada, Montreal
Guaranty Trust, Toronto

Head Office

800 Dorchester Boulevard West
Montreal, Quebec
H3B 1Y2

Officers

Antoine Turmel
Chairman of the Board and Chief Executive Officer

René Provost
Vice-Chairman of the Board and Vice-President, Public Affairs

Pierre H. Lessard
President and Chief Operating Officer

Jean-Louis Lamontagne
Executive Vice-President, Wholesale Operations

Yvan Bussières
Vice-President, Administration and Treasurer

Richard Constantineau
Vice-President, Retail Operations

Claude Dufour
Vice-President, Meat Operations

H. Paul Gobeil
Vice-President, Finance

Jacques Lesage
Vice-President, Human Resources

Jean-Claude Merizzi
Vice-President, Development and Expansion

Gaston Roy
Vice-President, Procurement

Claude E. Leduc
Secretary

Provigo Inc. Major Subsidiaries' Management

M. Loeb, Limited

President and Chief Operating Officer
H. Paul Gobeil

Vice-Presidents
Abe Bookman
François Goulet
William Kipp
Richard Laniel
Norman Lesh
Claude Rivest
Alfred Teixeira

Horne & Pitfield Foods Limited

President and Chief Executive Officer
Kenneth W. Quinn

Vice-Presidents
Wesley L. Armeneau
John M. Freeman
Ronald J.F. Garland
Melvin G. Lindgren
David W. Mellor

National Drug Limited

President and Chief Executive Officer
Gordon J. Odell

Vice-Presidents
Tandy D. Arnold
Louis M. Goelman
J. Laurie Johnston
William R. Killorn
Claude A. Savard

Market Wholesale Grocery Co.

President and Chief Executive Officer
Carl R. Goslovich

Vice-Presidents
Charles E. DeBerry
Harry M. Markowitz, Jr.
Walter J. Amador
John R. Biagi
William H. Birtcil, Sr.
Raymond V. Ferrucci
Arthur W. Grix
David L. Stafford