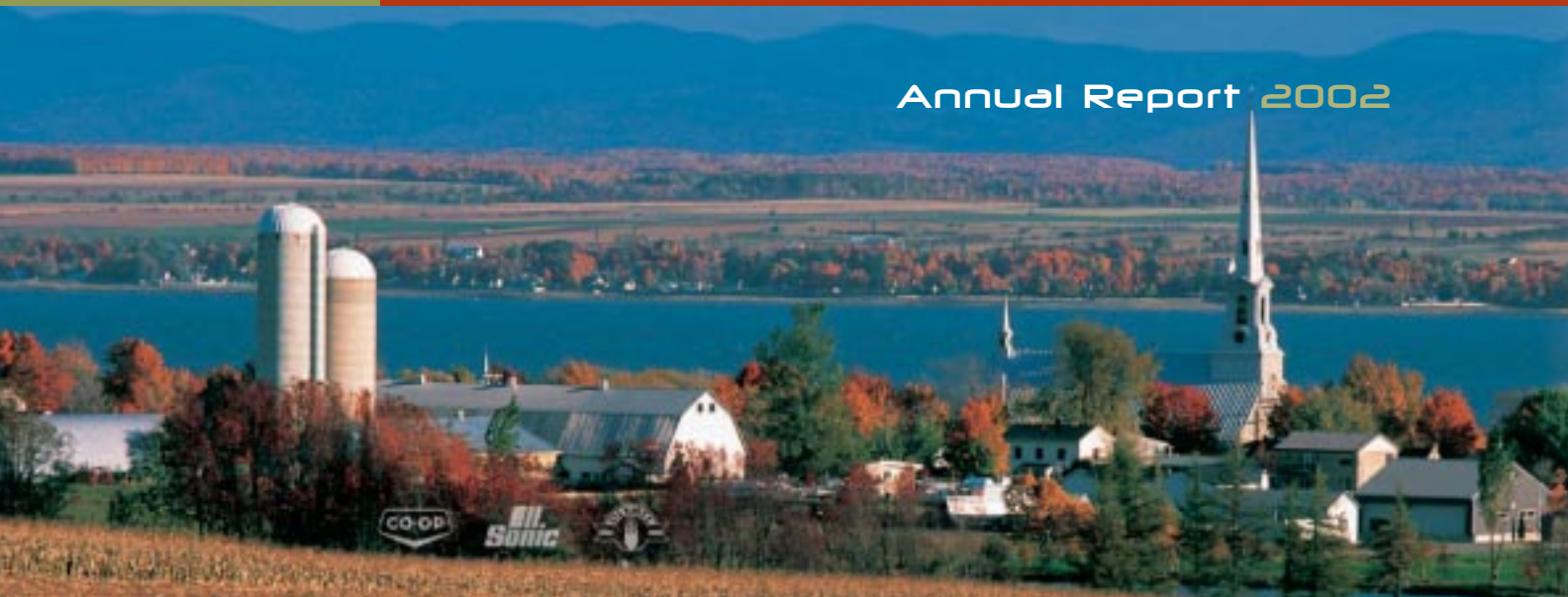


Present in our Regions

Annual Report 2002



COOPÉRATIVE FÉDÉRÉE
DE QUÉBEC

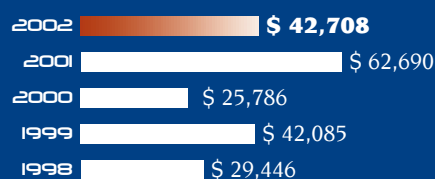
Sales

[in thousands of dollars]



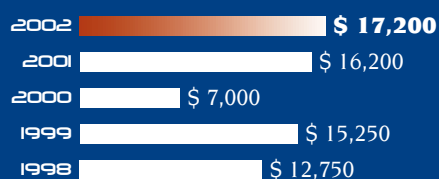
Operating earnings from continuing operations

[in thousands of dollars]



Patronage refunds

[in thousands of dollars]



Working capital

[in thousands of dollars]



Convertible debentures, preferred shares and equity

[in thousands of dollars]



[in thousands of dollars]

	2002	2001
Sales	\$ 2,480,291	\$ 2,431,329
Operating income	40,080	39,911
Operating earnings from continuing operations	42,708	62,690
Patronage refunds	17,200	16,200
Net earnings after distribution	17,059	37,712
Accounts receivable and inventories	367,779	350,786
Current assets	379,814	359,083
Working capital	123,742	122,390
Property, plant and equipment, at cost	636,884	591,334
Property, plant and equipment, book value	309,477	287,269
Total assets	769,788	721,081
Long-term debt	178,212	167,946
Convertible debentures, preferred shares and equity	283,163	258,461
Number of employees	10,096	9,340

Founded in 1922, *Coopérative fédérée de Québec* is the federation of 91 cooperatives. Together, the Cooperative and its affiliated cooperatives are 37,892 members strong and form a network that is ranked fourth among Québec businesses based on revenue generated in Québec.

The Cooperative supplies farmers directly or through its member cooperatives with a wide range of goods and services needed to operate their businesses, including petroleum products. It also processes and markets, locally and internationally, various agricultural products such as pork and poultry through its own divisions and subsidiaries or through its interests in other ventures.

The organization animates cooperative life and represents the collective interests of the agricultural cooperative movement in relation to the various government bodies and the general public.

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**Cooperating
is sharing
an experience**

Paul Massicotte

Agricultural cooperation has always been for me an important sharing experience. Sharing earnings of course, given that our cooperatives are first and foremost business organizations. But also, sharing values such as solidarity, empowerment and autonomy that are at the heart of our cooperative organizations.

Agricultural cooperation also means for me sharing ideas, first with my colleagues and cooperator friends, but also with all our partners, including governments, the Union des producteurs agricoles and our many employees. And above all, it means sharing time between my commitment to the agricultural cooperative movement and my dedication to my family and agricultural business.

Sharing earnings

With respect to sharing earnings, Coopérative fédérée de Québec ended fiscal 2002 with earnings that reflect the soundness of its business proposal and of its roots in the agricultural world, and this despite the general erosion in the leeway to Québec agricultural producers.

Although the increase in sales to \$2.5 billion may seem to be modest compared with last year's results, it actually conceals a significant rise in volume sales in all our business segments that was achieved under conditions marked by a decline in the monetary value of several marketed products.

Financially, the Cooperative continued its efforts to upgrade its assets and improve its balance sheet, and we can confidently state that it now enjoys a healthy financial position.

With this solid performance, the Cooperative was able to post operating earnings from continuing operations that are comparable to last year, excluding the gain on dilution that occurred in the previous year. In addition, as you will see, the Board of Directors was able to take into account the needs of those who have over the years contributed to the growth of our organization while striving to maintain its excellent financial position.

Sharing our values

I love agriculture and I am deeply convinced that agricultural production is one of the noblest professions.

Of all the cooperative sectors in the world, the agricultural cooperative movement is one of the most important. This is obvious throughout the world. The values tied to the land easily relate to the values of solidarity and democratic empowerment that are very much part of cooperative operations.

With these values in mind, the Cooperative became a partner of SOCODEVI during the year in order to contribute actively to the well-being of disadvantaged populations through cooperative action.

We also reaffirmed and emphasized these values to the elected members and representatives of government at meetings intended to amend the cooperative tax system to promote capitalization.

Success has already been achieved with last year's announcement by Québec Agriculture, Fisheries and Food Minister Maxime Arseneau of the government's decision to accept our proposal regarding the deferral of income taxes on patronage refunds paid in shares.

Throughout the past year, we pursued our efforts to raise awareness, in Québec City and in Ottawa, of the need to harmonize the tax rules between our two levels of government so as to enable agricultural cooperatives to fully play their role in the economic development of agriculture and our regions.

Our requests landed in fertile territory, and I am confident that fiscal 2003 will produce a significant harvest with respect to tax amendments related to agricultural cooperatives, thereby contributing to their sustainability.

We now need to affirm and promote our values more extensively among our neighbours and fellow citizens who are concerned about the environmental impact of our agricultural practices.

It is sometimes felt that such concerns are unfounded or fuelled by the ignorance of a few people and the bad faith of others. However, the concerns of our fellow citizens and neighbours are very real indeed.

It must be recognized that some past practices and current practices of a few have caused the environmental issue to be an additional challenge. I have no doubt whatsoever that we will be able to meet this challenge through the solidarity and intercooperation that have often been displayed within the agricultural cooperative movement.

If two values are characteristic of cooperative producers, surely ethics and professionalism, as demonstrated by the majority of us, are those values.

For the past few years, we have been implementing new technologies and farming practices in support of high-performance agriculture that is respectful of the environment and in harmony with our rural communities. We must steadfastly maintain our efforts in this regard.

It is up to us to promote and assert our values and practices as well as adopt rules of conduct that help us to proclaim enthusiastically that sustainable agriculture and agricultural cooperation go hand in hand.

I am confident that the discussions undertaken in the fall, which should lead the agricultural cooperative movement to a firm position with respect to good agri-environmental practices, will set us apart in public opinion and enable us to capitalize on our sound agricultural practices.

Sharing ideas

The past year was plentiful in this respect. The Cooperative continued implementing its strategic plan. Substantial investments were made in the farm supply and meat processing sectors, primarily in terms of upgrading our assets and expanding our production capacities.

Almost \$45 million is invested annually in our facilities and in the economy of our regions to help ensure that the Cooperative remains a leader in its industry sectors.

An interest in one of the largest bacon producers in North America was also acquired during the year with the support of SGF Soquia Inc., our partner in the meat processing sector.

In the past year, we also set up the Youth Forums as a venue for people who recently decided to be part of the agricultural profession and who represent the future of our collective organizations.

The development of the family farm has always been at the heart of the Cooperative's concerns. That's why we partnered this year with the Québec agricultural merit awards (Concours de l'Ordre national du mérite agricole) to honour the families who carried out the successful transfer of their farms.

On the occasion of the annual awards gala (the Gala de l'Ordre national du mérite agricole), a Coopérative fédérée de Québec award will be presented to a family whose farm transfer was conducted with distinction.

In today's agri-food industry, agricultural cooperatives must constantly seek to excel to remain leaders in their industries. In light of this, we introduced this year a new contest called "Coopérative Étoile". This contest is intended to highlight the best management and associative animation practices of our affiliated cooperatives.

Over the years, a number of venues were set up to ensure better cohesion between Coopérative fédérée de Québec and its network of affiliated cooperatives. Whether it was through the Presidents' Forum, the semi-annual meeting, the General Managers' Advisory Committee, the sectorial committees or the Cooperative Education Committee, these venues all contributed to improving the operations of the Québec agricultural cooperative movement.

	1	2	3	4	5	6
C	Board of Directors					
D	 <p>Denis Richard 1st Vice-President, Executive Committee Member Territory no. 5</p>			 <p>Claude Couture Territory no. 10</p>		
E	 <p>Paul Massicotte President, Executive Committee Member Territory no. 13</p>		 <p>Ghislain Cloutier Executive Committee Member Territory no. 3</p>			
F	 <p>Léo Pinard 2nd Vice-President, Executive Committee Member Territory no. 14</p>				 <p>Roger Béliveau Territory no. 6</p>	
G			 <p>Laurent Bousquet Executive Committee and Audit Committee Member Territory no. 9</p>			
H					 <p>Gaston Blais Audit Committee Member Territory no. 11</p>	
	1	2	3	4	5	6

However, the structure of the agricultural world is rapidly evolving and the solutions brought to yesterday's challenges are not necessarily useful for those of tomorrow. Whether in terms of the consequences of new environmental regulations, traceability or even growth in the size of our agricultural businesses, the optimization of our production and supply structures as well as the performance of our advisory services must be reviewed globally.

In this respect, it might be the right time to launch a new strategic planning exercise for the Québec agricultural cooperative movement so as to update the planning that took place in 1988 and maximize the efforts of all of us toward the well-being of our members and their families.

7	8	9	10	11	12	13	14	
								C
								D
								E
								F
								G
								H
7	8	9	10	11	12	13	14	

Each director represents a territory that covers a number of network cooperatives. See list on page 20.

Sharing time

I have often said that cooperating is more demanding than simply consuming because it implies the active participation of users. This is especially true in the case of people who, like you and me, are actively involved in the direction and administration of our cooperatives on a daily basis.

Cooperating is certainly demanding, but we often forget to mention how gratifying it is. Gratifying financially, of course, given that few other investments generate such a good return, but gratifying above all because of the numerous human contacts that help us grow and are a source of inspiration for becoming better persons, better producers and better citizens.

As I grow older, I can truly say that time is a rare commodity and that unlike each and every one of us, the more the years go by, the faster time flies. The time is approaching when, like my predecessors, I will have to hand over the reins of this great movement to those who have accompanied me in the past few years.

I will do so knowing that I did my best and contributed with all of you to the growth of the Québec agricultural cooperative movement and its promotion in the agricultural landscape of Québec and Canada.

I will be doing so with a feeling similar to that which we experience on our farms, that of having inherited a business built over years, of having benefited from it, of having made others benefit from it and of transmitting it to those who will be able to do as much, if not better.

I will do so with regret, since my involvement in the cooperative movement and in Coopérative fédérée de Québec has been a stirring adventure; but I will also do so with pleasure at knowing that I will have more time to devote to my wife, my children and my grandchildren.

I am therefore retiring completely at peace, apart perhaps from a single remorse. In the current global economic context and in light of the limited resources available to us in Québec, it would be high time for agricultural unionism to fully recognize the nature and expertise of agricultural cooperatives with respect to collective marketing and the delivery of advisory services.

I wish to thank my former and current colleagues on the Board of Directors for their support and the confidence they have expressed in me. I also wish to thank our Chief Executive Officer, the members of the Corporate Management Committee and our employees for their commitment to making the Cooperative a high-performance business that respects the values and principles of the cooperative movement.

I will cherish lifelong memories of all those whose paths I have crossed over the years, of all the people deeply involved in the well-being of their fellow citizens and their families, and this with respect to government bodies as well as cooperative and agricultural organizations.

Finally, I wish to express special gratitude to all those people who, over the years, helped shape Coopérative fédérée de Québec and the agricultural cooperative movement. To all of you who were able to define the orientations of your cooperative businesses and support them financially, thereby making them today's success stories, I say thank you.



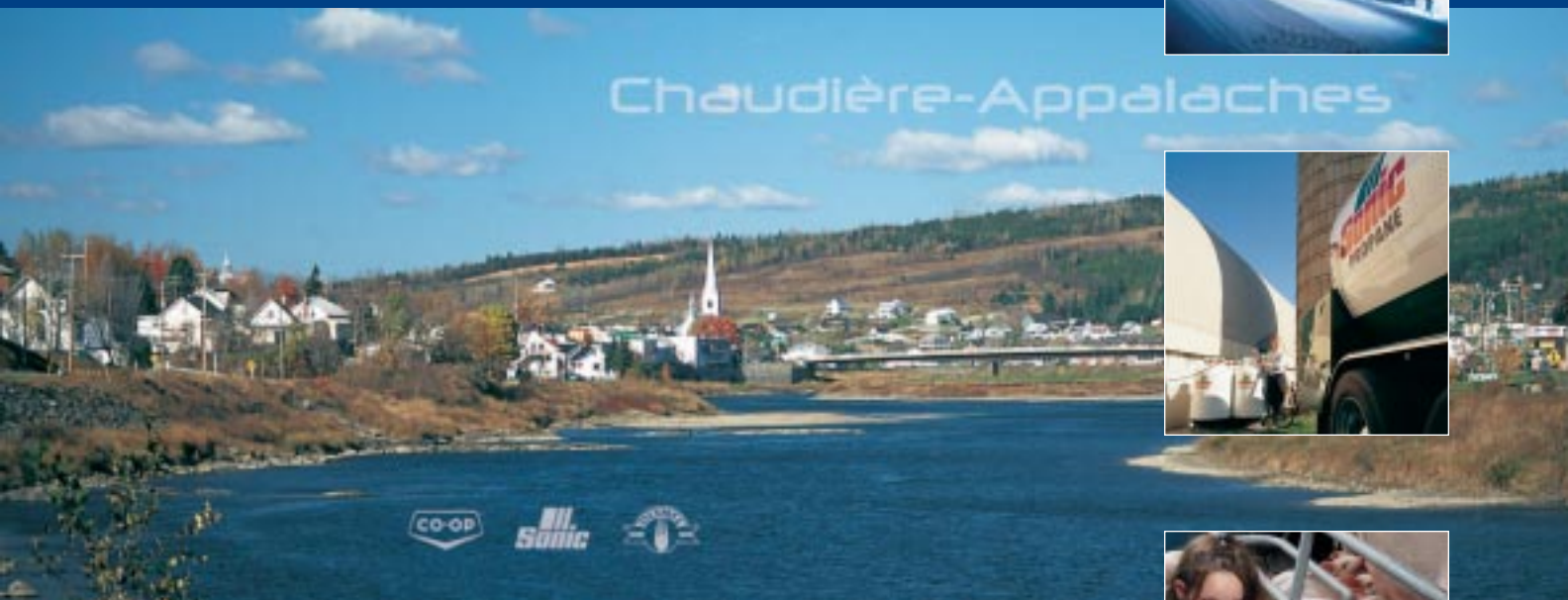
Paul Massicotte
President

Farm Supply

During busy periods, the Crop Production Department of the Farm Supply Division ships over 10,000 metric tons of fertilizers every day to the 62 network blending plants located throughout Québec.

Sonic

Some 125 trucks deliver petroleum products every day across the province.



Olymel L.P.

Olymel L.P. operates 13 livestock production centres, as well as 22 slaughtering, processing and distribution facilities. It processes 80 million chickens, 4 million turkeys and 5.5 million hogs every year.



The numbers behind our people

Pierre Gauvreau
Chief Executive Officer

At the end of fiscal 2002, Coopérative fédérée de Québec reports earnings before taxes in the amount of \$42.5 million, compared with \$62.4 million, including a gain on dilution of \$20.4 million, in the previous year.

Consolidated operating results, excluding the gain on dilution, are comparable year over year with, however, variances in their divisional breakdown. Thus, the Farm Supply Division's contribution was up over last year, while Olymel's contribution was slightly lower and that of Sonic declined.

The Cooperative's consolidated sales for the year ended October 26, 2002 rose to \$2.480 billion, compared with \$2.431 billion for the previous year. The increase in sales stems primarily from the acquisition of businesses in April 2001, such as the Red Deer plant in Alberta, and AgriEst in Ontario, as well as the feedmill operation in New Liskeard, Ontario in May 2001. However, these sales increases were offset by lower sales at the Sonic Petroleum Division compared with last year as a result of lower retail prices.

The cost of sales and selling and administrative expenses totalled \$2.429 billion, compared with \$2.376 billion last year. The increase was due primarily to the addition of operating expenses related to our business acquisitions, combined with growth in our industry sectors. Nonetheless, financial expenses totalled \$11.4 million, down \$4.1 million from last year. The decrease results from a decline in the Cooperative's average level of borrowing and lower interest rates.

Operating income rose to \$40.1 million compared with \$39.9 million in 2001.

With respect to the heading "Other results," the Cooperative's share of results of entities subject to significant influence amounted to \$1.8 million, down from \$2.1 million last year. Gains on disposal of assets totalled \$5.7 million in 2002, compared with \$919,000 last year. This significant variance arises from the sale of production quotas during the year. The final item under this heading, gain on dilution, results from the capital transaction completed with SGF Soquia Inc. in 2001.

Operating earnings from continuing operations after non-controlling interests in a subsidiary were \$42.7 million, compared with \$62.7 million last year.

For the year ended October 26, 2002, net earnings from continuing operations after distribution of patronage refunds and income taxes decreased to \$17.2 million compared with \$37.9 million last year.

Net earnings after distribution stood at \$17.1 million, compared with \$37.7 million in 2001.

(For the balance of this presentation, divisional sales include amounts related to interdivisional transactions.)

Meats

For the year ended October 26, 2002, Olymel L.P.'s sales rose \$71 million to \$1.690 billion, compared with \$1.619 billion in 2001. The sales increase partly results from the inclusion of the Red Deer plant operations in Alberta, for a period of 12 months, whereas fiscal 2001 included only 28 weeks of operations. On the other hand, the increase in pork and poultry sales volumes was offset in 2002 by lower selling prices.

The net contribution of the hog slaughtering and processing sector was up as opposed to last year. The increase in unit margins, in a context in which the purchase price of pork also declined in 2002, accounts for the improvement in results. Olymel L.P. is a major player in international markets and exports almost 54% of its pork sales to countries such as the U.S., Japan and Australia.

The poultry sector's results were down from last year. These results were overshadowed by the sharp margin decline in the turkey sector, a direct consequence of higher production volume in Canada in the past few years and the weakness in the prices for chicken on the U.S. and Canadian markets.

Overall, Olymel L.P.'s consolidated results are slightly below last year.

On October 6, 2002, Olymel L.P., a Canadian leader in the meat industry, acquired a 50% interest in Prince L.P., a bacon producer that operates three plants, namely two in Québec and one in Ontario. With this interest, along with the acquisition of the Red Deer plant in 2001, Olymel L.P. is in a better position to serve its markets. As well, on January 10, 2003, SGF Soquia Inc. acquired another \$25 million in Olymel L.P., thereby increasing its interest in the partnership from 17% to 22.57%.

Petroleum

For the year ended October 26, 2002, the Sonic Petroleum Division's sales totalled \$212 million, compared with \$249 million last year. The decrease in sales is due primarily to lower retail prices as a result of the reduction in the cost of inputs as sales volumes were slightly higher. The net contributions of all Sonic sectors, namely the Automobile Service Department, the Residential and Commercial Department and the Propane Department, declined from last year. The main reasons for the Division's decrease in net contribution are the lower unit margins combined with a milder winter and a corn drying season that was later than in 2001.

Farm Supply

The Farm Supply Division's sales rose from \$581 million last year to \$587 million. This increase in sales was toned down because the Profid'Or agricultural centre became independent on December 1, 2001. However, sales in feed as well as hardware and materials were up thanks to significant increases in volumes. The Division's net contribution rose 14% over last year. After taking into account Profid'Or's independence, higher sales and cost control are the main variance factors behind the results.

The Feed Department's sales rose to \$155 million, versus \$145 million in 2001. The improvement is attributable to an increase in sales volumes as well as a change in manufactured product mix and the higher average cost of raw materials that was reflected in the selling price. The net result was up 18.87% over last year.

The Hatcheries and Farm Department recorded sales of \$22.5 million, in line with the \$22 million accounted for last year. The Department's net contribution was slightly down from last year.

The Fertilizer Department's sales amounted to \$69 million, down from \$73 million in 2001. Despite a larger sales volume, sales declined as a result of lower average selling prices. The Department's net contribution improved over last year.

The Seeds Department reported an increase in sales to \$21 million, compared with \$19 million last year. The Department's net results improved over last year.

Sales of the Crop Protection Products Department amounted to \$41 million, compared with \$42 million in 2001. This decrease arises from the decline in sales resulting from a more difficult season in the horticultural sector. The Department's contribution improved slightly over last year.

Sales of the Grains Department totalled \$116 million, up from \$115 million in 2001. The Department's net results were lower than last year.

It is also important to point out that, since the beginning of October 2002, Coopérative fédérée de Québec and 23 network cooperatives formed a group for the purpose of marketing, in an efficient and consistent manner, grains and derivative products for the general benefit of the cooperative network. The group's first project is

organizing the collection and marketing of soybeans for the local and export markets.

The Hardware and Materials Department showed sales of \$131 million, compared with \$118 million last year. Higher sales for all product lines, especially materials, explain the rise. The Department's net contribution improved sharply over last year.

In November 2002, the Cooperative unveiled a new banner under the name "Unimat" for hardware products and materials. The banner will serve independent hardware stores in locations where there is no CO-OP hardware outlet. This will result in an expansion of the Cooperative's distribution territory. The CO-OP Hardware banner will continue to be used to meet the needs of the cooperatives that are members of Coopérative fédérée de Québec.

With respect to the farm machinery sector, sales rose to \$22 million, compared with \$20 million last year. The sector's net contribution improved significantly in 2002 and thus returned to profitability.

The sales and results of the retail outlets varied significantly compared with last year as a result primarily of the fact that the Profid'Or agricultural centre became independent on December 1, 2001. As well, the past year was the AgriEst centre's first full year of operations, whereas the previous year included only seven months of operations.

As at October 26, 2002, sales, including those of the Centre agricole coop de la Matapédia, totalled \$31 million, down from \$98 million in 2001. The net contribution for fiscal 2002 is significantly lower than the previous year and is attributable to the fact that Profid'Or became independent.

Dairy

Following the sale of Lactel Group's assets and the discontinuation of commercial activities, the Cooperative undertook to recover certain receivables that were not disposed of as part of the transaction. In this regard, because of the measures now under way and the lack of progress, an additional provision was recognized that is reflected under discontinued operations.

Moreover, during the past year, Agropur Cooperative redeemed a portion of the preferred shares received for the sale of Lactel Group in the amount of \$2.3 million.

Administrative Departments

The Head Office administrative departments consist of the Office of the Chief Executive Officer, General Secretariat, the Legal Department, Human Resources and Treasury. For the year ended October 26, 2002, the net expenses of these departments, including the 50% share of the results of the real estate joint venture, were \$9.8 million, compared with \$8.9 million last year.

Human Resources

At year-end, Coopérative fédérée de Québec, including its subsidiaries, employed 10,096 people versus 9,340 in 2001, for an increase of 756 employees. New positions at meat processing plants resulted in the increase.

With respect to training, Cooperative and network employees are offered numerous training programs on different topics related to our operational and commercial activities as well as the associative aspects of agricultural cooperation. During the year, the Cooperative also created the Coop Academy, a training agency that offers specific development and learning programs designed to enhance the skills of elected officers, managers and employees of the Cooperative and the network of affiliated cooperatives. Thanks to programs adapted to the various families of functions, it will be possible to offer a range of courses granting credits and leading to various levels of recognition.

In the area of labour relations, 13 collective agreements were negotiated and signed in the year throughout the agricultural cooperative movement. There were no labour disputes. The competitiveness of all these businesses was maintained or improved as a result of greater operational flexibility. With respect to health and safety, the Cooperative devotes

significant efforts toward reducing the number of work accidents, and this helps reduce the costs related to occupational health and safety.

Through its employee assistance program, the Cooperative continues to offer strictly confidential services to help employees cope with difficult situations. This social action is part of the Cooperative's commitment to ensuring the sound management of human resources.

Financial Position

As at October 26, 2002, Coopérative fédérée de Québec's total assets grew 6.7% to \$770 million, compared with \$721 million last year. The growth in total assets stems, on the one hand, from the 50% proportionate consolidation of Prince L.P. and, on the other hand, primarily from the increase in inventories resulting from higher business volumes. The working capital ratio remained stable at 1.5. The calculation of working capital was affected this year by the recording of the first instalment of the current portion of convertible debentures under current liabilities.

Short-term borrowings totalled \$3.8 million in 2002, compared with \$532,000 last year. The Cooperative's debt-equity ratio was 43:57 as at October 26, 2002, unchanged from



In addition to producing supplements, minerals and complete feeds, the Farm Supply Division's Animal Production Department supplies the entire agricultural cooperative network.



Sonic's Residential and Commercial Department operates three key customer service centres in the province. Thus, the Department ensures that calls are handled promptly and efficiently.

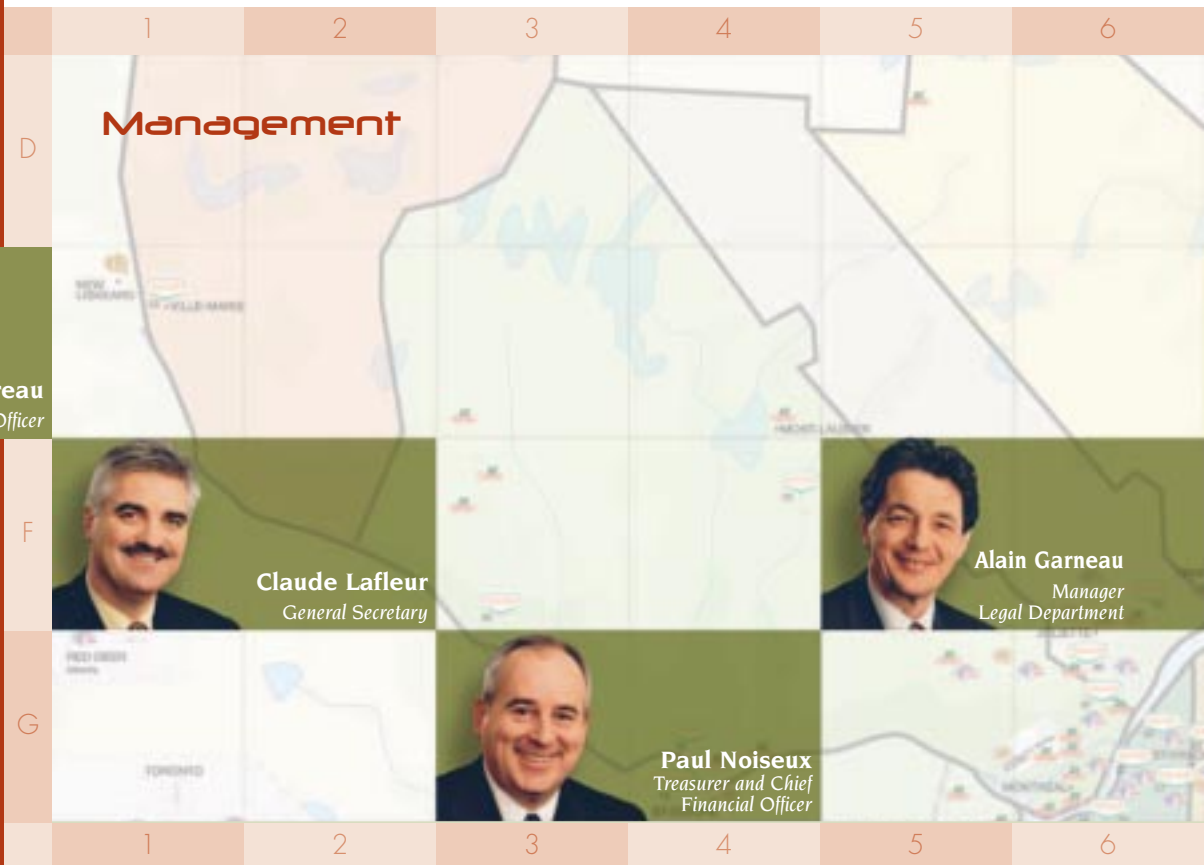
Although Olymel L.P. excels in preparing large quantities of pork and poultry products, it is also able to adapt its products to specific needs for Canadian and foreign markets alike.

last year. Convertible debentures, preferred shares and equity totalled \$283 million at year-end, compared with \$258 million last year. These items represent 36.8% of total assets, compared with 35.9% at the end of last year. The Cooperative's equity as at October 26, 2002 amounted to \$170 million and represented 59.9% of convertible debentures, preferred shares and equity.

Liquidity and Capital Resources

Coopérative fédérée de Québec entered into a new financing agreement with a bank syndicate in December 2001, thereby modifying the maturities and conditions of its lines of credit. Consequently, the Cooperative's aggregate credit facility is \$300 million and consists of a line of credit renewable annually. If it is not renewed, it will be converted into a two-year term loan. The lines of credit used as at October 26, 2002 totalled \$136.8 million, compared with \$123.1 million last year. As well, as at October 26, 2002, our lines of credit covered letters of guarantee for \$12.4 million. In addition, long-term borrowings in the form of term notes totalled \$33.4 million as at October 26, 2002 following the annual instalment of \$11.1 million in the past fiscal year.

Every year, Coopérative fédérée de Québec determines its capital investment capacity based on the cash flow generated by each division. In fiscal 2002, capital investments amounted to \$28.8 million, well below the capacity determination. Thus, by applying a policy of prudent working capital management, the Cooperative has been able to minimize its average borrowing needs.



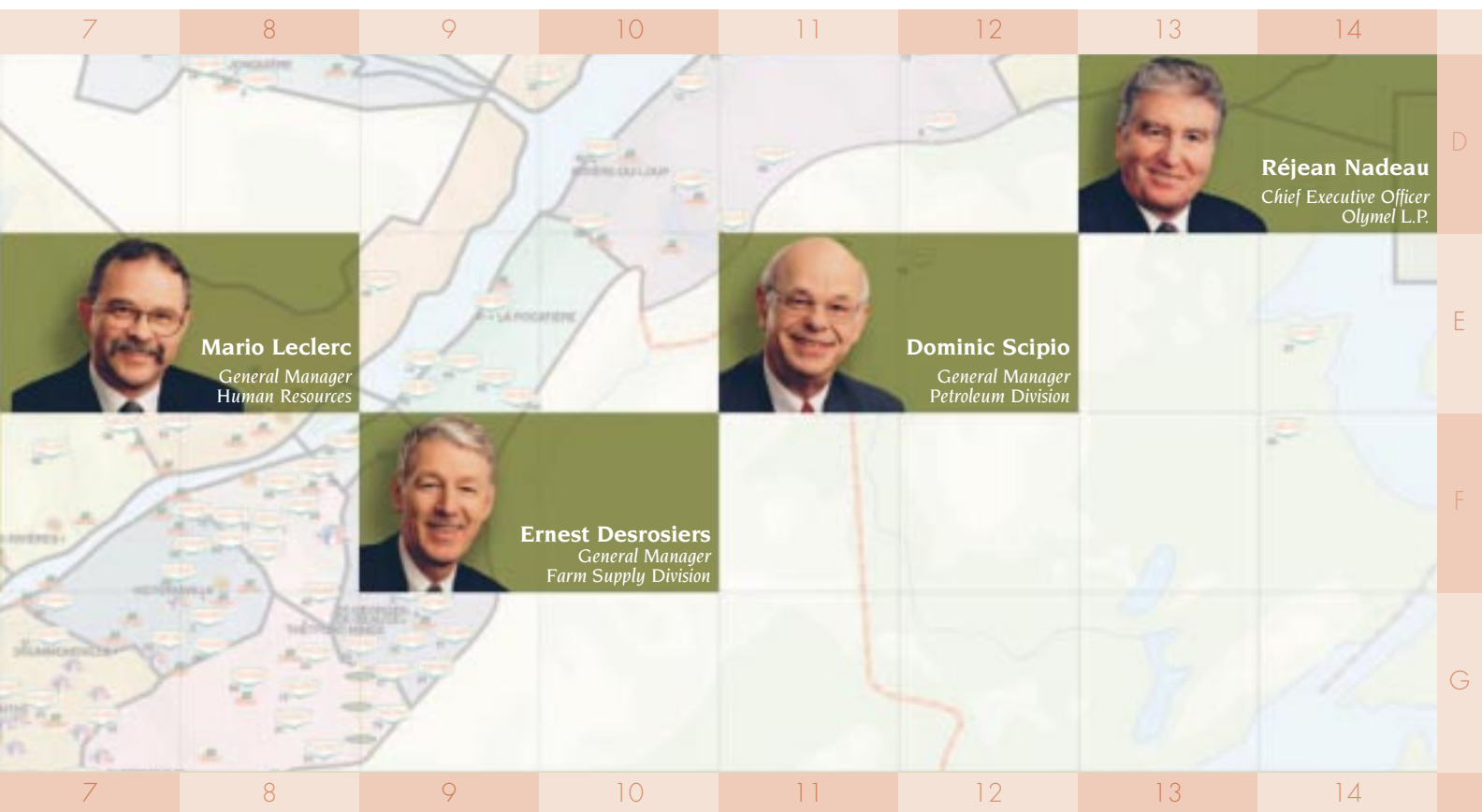
Risks and Uncertainties

Coopérative fédérée de Québec is exposed to external and internal risk factors. The fluctuation in input prices is a major external risk for the Cooperative. The Cooperative has little control over these prices because it operates in an environment where the supply of its slaughterhouses is governed by national and provincial policies that have an impact on the quantities and prices of live animals. In several sectors, the Cooperative only has real control over the efficiency of its operations. However, operating expenses often account for only a small percentage of the total cost of sales. The diversity of sectors in which the Cooperative operates is the element that contributes most to minimizing the risk factors.

Other internal and external risks are managed specifically by the Cooperative. For example, in the ordinary course of business, the Cooperative controls credit risk by regularly assessing the financial position of customers, holding securities, as necessary, and evaluating its allowance for doubtful accounts on a regular basis.

The Cooperative also manages foreign exchange and interest rate risks. For instance, for the year ended October 26, 2002, Olymel L.P. generated over 39% of its total sales in foreign countries. In several sectors, a number of purchases are denominated in currencies other than Canadian. Consequently, the Cooperative uses various derivative financial instruments to hedge against foreign exchange fluctuations related to future income and purchases. In 2002, foreign exchange contracts used by the Cooperative as a hedge against currency fluctuations exceeded C\$919 million.

Moreover, the Cooperative maintains a derivative financial instrument for all long-term borrowings and related interest denominated in U.S. dollars. In accordance with its internal policy, derivative financial instruments are used by the Cooperative solely for the purpose of risk management in the ordinary course of business.



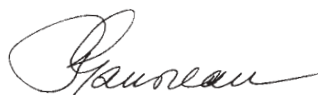
Conclusion

Fiscal 2002 ends with satisfactory consolidated results and an acceptable financial position compared with the objectives that were set. Even though unfavourable variances were reported in certain sectors, they were offset by increases in other sectors that helped maintain the level of profitability required for the Cooperative to continue advancing.

The network of affiliated cooperatives contributed significantly to the achievement of profitability. On behalf of everyone, I thank all officers and managers of our member cooperatives for their loyalty and constantly growing support.

As well, I wish to recognize the dedication and unflagging efforts of all employees in the achievements of the past year as well as the continuous support of all my colleagues on the Corporate Management Committee.

To the President and members of the Board of Directors, I am thankful for their steadfast interest in the affairs of Coopérative fédérée de Québec and express my sincere gratitude for their confidence in me.



Pierre Gauvreau
Chief Executive Officer

Farm Supply

Almost 350 agronomers and agricultural technologists in the province offer technical support to agricultural producers with respect to animal and crop productions as well as environmental matters.

Sonic

In the past year, Sonic Petroleum Division reconfigured its distribution network to ensure greater flexibility for the delivery of petroleum products throughout the province.



Olymel L.P.

One in every two chickens in Québec and one in every ten chickens in Canada are marketed by Olymel L.P. in grocery stores and in major restaurant chains.

Coopérative fédérée de Québec is present everywhere to serve you, from the farm to your table. Indeed, the Cooperative's Farm Supply Division provides farmers, directly or through member cooperatives, with a range of goods and services related to animal production, crop production, grains, hardware products and farm machinery, as well as advisory services to cooperatives.

Through its Petroleum Division, better known under the Sonic banner, the Cooperative markets products, namely fuel for automotive vehicles, propane, diesel, as well as heating oil and systems, that meet the needs of its agricultural, residential, commercial and transportation customers.

The Cooperative is also a Canadian leader in the processing of pork and poultry. Thus, its subsidiary Olymel L.P. is active in slaughtering, butchering, boning, further-processing and distributing pork and poultry products. These products are marketed under the brand names Olymel and Flamingo and exported to over 40 countries, in particular the U.S., Japan and Australia.



Olymel L.P. is Canada's leader at both the national and international levels in the slaughtering, processing and marketing of pork and poultry meat products that are distributed across Canada and exported to over 40 countries around the world.

To continue setting itself apart and pursue its efforts to consolidate and modernize its assets and production equipment, Olymel L.P. can count on the support of its owners namely, Coopérative fédérée de Québec and SGF Soquia Inc., two organizations dedicated to the agri-food industry.

In addition, Olymel L.P. has taken significant measures in connection with its long-term growth strategy, in particular, through its 50 % interest in Prince L.P., one of the largest bacon producers in North America, and the implementation of a second shift at the Saint-Simon cutting plant.

Olymel L.P. also moved closer to the achievement of its growth strategy by completing the new cutting room at the Red Deer plant, requiring an investment of over \$25 million, and by increasing its annual slaughtering levels.



During fiscal 2002, Olymel L.P. pursued its marketing efforts to promote its Flamingo and Olymel brands across the country. These efforts are now paying off as shown by the growth in its sales, market share and reputation as well as by the indisputable recognition of the quality of its many products.

With its 9,000 employees, over 7,500 of whom work in its 17 facilities in Québec, Olymel L.P. is a recognized driving force in the agri-food industry and for regional and national economic development. It was responsible for creating nearly 1,000 jobs last year.

Olymel's leading position in the Canadian food industry is the result of growth in supplies and quality. It works in close cooperation with producers by making use of their collective marketing systems.

Other highlights of the year were the signing of a number of long-term collective agreements and the reopening of the Red Deer collective agreement as well as the arbitration of a new marketing agreement.

Finally, in order to minimize the impact of its activities on the environment, the Olymel L.P. pursued its investment and practice improvement program.

The Cooperative's Sonic Petroleum Division is the largest independent petroleum products distributor in Québec. After 45 years of operations, its mission continues to be to ensure the competitive marketing of a full range of petroleum products and services that meet the needs of customers located primarily in rural and semi-urban areas.

Customer service has therefore been the backbone of the Division in the past year. The Residential and Commercial Department set up a key centre in each of Montréal, Saint-Hyacinthe and Drummondville. Thus, Sonic is provided with effective call processing throughout the province.

The transportation and petroleum equipment unit reconfigured its distribution network in order to deliver petroleum products with greater flexibility. Almost 125 trucks provide daily delivery of these products across Québec.

With respect to the Automobile Service Department, the Division launched, in cooperation with the Farm Supply Division, an integrated service consisting of a Sonic service station, a CO-OP hardware store and a convenience store. The concept, which was unveiled at the Société coopérative agricole La Seigneurie, in Sainte-Agathe de Lotbinière, has a promising



future. On the one hand, it offers complementary services; on the other hand, it helps increase clientele significantly for each sector. Other network cooperatives have taken steps to implement such a concept.

The Petroleum Division also adopted a new corporate image. The 185 service stations in its network as well as the delivery trucks used by its distribution agents now have a friendlier look. Green, which has become darker, and red continue to reflect the historical values of the business, the most important of which is respect for the environment.

Finally, thanks to a sustained marketing campaign, sales of propane-operated fireplaces, BBQs, stoves, refrigerators and heating systems rose significantly. Because it is clean, safe and efficient, many people now prefer this source of energy.

Whether with gas, ethanol, heating oil, propane, diesel, lubricant or heating equipment, the Sonic Petroleum Division has the necessary resources to satisfy all its member cooperatives and customers.

The Farm Supply Division once again contributed significantly to the Cooperative's solid results. Thanks to its 91 affiliated cooperatives, located in Québec, Ontario and New Brunswick, it is the primary supplier of agricultural inputs in Québec. Its new slogan "La force d'un réseau" builds on the many benefits available to the Division's 37,892 producers and member producers.

To maintain its leadership in its sector, the Division invested almost \$4 million in improving its production procedures and capacities at its livestock farms and animal feed production plants. Seven network mills have now obtained the HACCP (Hazard Analysis of Critical Control Point) recognition, and thirteen others are currently in this certification process.

Several million dollars were allocated to research, in particular for the development of hog genetics, especially at Sogéporc and at Cooperative Research Farms in Frampton, and in connection with crop productions at the Techno Champs Research Farm in Sainte-Rosalie.



With respect to the agri-environment, the Division implemented a major action plan that provides network members with solutions to meet the new regulatory requirements. The Division earned an environment award ("Phénix de l'environnement") from the Québec Environment Department for the publication "Guide des bonnes pratiques agroenvironnementales" (guide to best agri-environment practices) that it developed in cooperation with community partners.

The Grains Department drew on the intercooperation format and set up a group of several network cooperatives initially responsible for facilitating the marketing of soybeans.

Hardware and Farm Machinery reported a strong increase in sales. The Department created, in particular, a new banner under the name "Unimat" that will serve renovation centres that are not affiliated with the Cooperative. In this way, it aims to expand its distribution territory. Moreover, the Department launched a new concept that houses a convenience store, a CO-OP hardware outlet and a Sonic gas station, all under one roof.

The past year also saw Profid'Or, one of the Division's retail establishments, become an independent organization on December 1, 2001. However, it is still affiliated with the network.

1

Coopérative agricole de la Baie des Chaleurs
Caplan

Coopérative de consommation de St-Alexis
Saint-Alexis-de-Matapédia

La Coopérative de Baie Ste-Anne Ltée
Baie-Sainte-Anne, New Brunswick

La Coopérative de Rogersville Ltée
Rogersville, New Brunswick

2

Agriscar, coopérative agricole
Trois-Pistoles

Coopérative acéricole régionale des Appalaches
Saint-Pamphile

Coopérative agricole du Témiscouata
Notre-Dame-du-Lac

Coopérative de Saint-Quentin Ltée
Saint-Quentin, New Brunswick

Groupe Dynaco, coopérative agroalimentaire
La Pocatière

3

Agrinove, coopérative agro-alimentaire
Sainte-Claire

Société coopérative agricole de Frampton
Frampton

Société coopérative agricole de la Rivière du Sud
Saint-François-de-la-Rivière-du-Sud

Société coopérative agricole de Langevin
Sainte-Justine

Société coopérative agricole de l'Île-aux-Grues
L'Isle-aux-Grues



Purdel, coopérative agro-alimentaire
Le Bic

Société coopérative agricole de St-Fabien
Saint-Fabien

Société coopérative de Lamèque Ltée
Lamèque, New Brunswick

Magasin CO-OP de Ste-Perpétue
Sainte-Perpétue

Magasin CO-OP de St-Pamphile
Saint-Pamphile

Magasin CO-OP Squatec
Squatec

Société coopérative agricole de St-Alexandre de Kamouraska
Saint-Alexandre-de-Kamouraska

Société coopérative agricole St-Hubert
Saint-Hubert-de-Rivière-du-Loup

Société coopérative agricole de Montmagny
Montmagny

Unicoop, coopérative agricole
Sainte-Hénédine

4
Alliance coop, service d'approvisionnement à la ferme
Saint-Éphrem-de-Beauce

Coopérative de consommateurs de St-Méthode-de-Frontenac
Adstock (Saint-Méthode Sector)

Magasin CO-OP de St-Ludger
Saint-Ludger

Magasin CO-OP de St-Victor
Saint-Victor

Magasin CO-OP de St-Côme
Saint-Côme – Linière

Magasin CO-OP St-Gédéon
Saint-Gédéon-de-Beauce

Magasin CO-OP de St-Samuel
Lac-Drolet

Société coopérative agricole
de Disraeli
Disraeli

Société coopérative agricole
de Lac Mégantic – Lambton
Lac-Mégantic

Société coopérative agricole
de St-Côme
Saint-Côme – Linière

Société coopérative agricole
de St-Gabriel de Stratford
Stratford

Société coopérative agricole
St-Georges de Beauce
Saint-Georges

Société coopérative agricole
de Weedon
Weedon

5

Coopérative agricole
de St-Bernard
Saint-Bernard

Coopérative agricole
régionale Parisville
Parisville

Société coopérative agricole
de St-Jacques de Leeds
Saint-Jacques-de-Leeds

Société coopérative agricole
St-Patrice
Saint-Patrice-de-Beaurivage

Société coopérative agricole
des Appalaches
Laurierville

Société coopérative agricole
La Seigneurie
Saint-Narcisse-de-Beaurivage

6

Citadelle,
coopérative de producteurs
de sirop d'érable
Plessisville

COVILAC,
coopérative agricole
Baie-du-Febvre

Société coopérative agricole
de Princeville
Princeville

Société coopérative agricole
de St-Adrien d'Irlande
Saint-Adrien-d'Irlande

Société coopérative agricole
des apiculteurs du Québec
Plessisville

Société coopérative agricole
des Bois-Francis
Victoriaville

Société coopérative agricole
de Ham Nord
Ham-Nord

7

Association coopérative
agricole de La Patrie
La Patrie

Coop des Cantons,
coopérative agricole
Coaticook

Coopérative agricole
du Pré-Vert
Asbestos

Coopexcel,
coopérative agricole
Granby

Société coopérative agricole
de Compton
Compton

Société coopérative agricole
de St-Isidore d'Auckland
Saint-Isidore-de-Clifton

8

**Territory no. 8
is provincial and reserved
for female representation.**

9

Agrilait, coopérative agricole
Saint-Guillaume

COMAX,
coopérative agricole
*Saint-Hyacinthe
(Sainte-Rosalie Sector)*

Société coopérative agricole
de St-André d'Acton
Acton Vale

Société coopérative agricole
de St-Damase
Saint-Damase

Société coopérative agricole
de St-Denis sur Richelieu
Saint-Denis-sur-Richelieu

Société coopérative agricole
de Ste-Hélène
Sainte-Hélène-de-Bagot

10

Coop des Frontières,
coopérative agricole
Sainte-Martine

Coopérative d'approvision-
nement de Ste-Julie
Sainte-Julie

Société coopérative agricole
de Ste-Marthe
Sainte-Marthe

Société coopérative agricole
de Verchères
Verchères

Société coopérative agricole
du Sud de Montréal
Napierville

11

Agrodor, coopérative
agro-alimentaire des vallées
Outaouais-Laurentides
Thurso

Société coopérative agricole
de Gracefield
Wright-Gracefield-Northfield

Société coopérative agricole
de Nominique
Nominique

Société coopérative agricole
des Fermes du Nord
Mont-Tremblant

12

Agrivert, coopérative
agricole régionale
Saint-Barthélemy

Profid'Or,
coopérative agricole
Joliette

Société coopérative agricole
de l'Assomption
L'Assomption

13

Agrivoix,
coopérative agricole
La Malbaie

Coopérative agricole
Pont-Rouge
Pont-Rouge

CoopPlus,
coopérative agricole
Champlain-Laviolette
Saint-Narcisse

Quincaillerie CO-OP
Ste-Catherine
*Sainte-Catherine-de-la-Jacques-
Cartier*

Société coopérative agricole
de St-Ubalde
Saint-Ubalde

Société coopérative agricole
régionale St-Casimir
Saint-Casimir

14

Coopérative agricole d'Amos
Amos

Coopérative de services
agricoles d'Abitibi-Ouest
La Sarre

Meunerie coopérative de
Ville-Marie
Ville-Marie

Société coopérative agricole
Dupuy et Ste-Jeanne d'Arc
Dupuy

15

Association coopérative des
agriculteurs d'Albanel
Albanel

Association coopérative des
agriculteurs de Jonquière
*Saguenay
(Jonquière Borough)*

Coop des deux rives,
coopérative agricole
Normandin

Coopérative agricole
Grains D'Or
Métabetchouan – Lac-à-la-Croix

Coop d'approvisionnement
Chambord
Chambord

Coopérative
d'approvisionnement de la
Haute-Côte-Nord
Sacré-Coeur

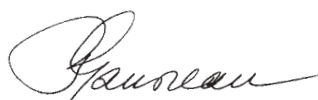
Nutrinor,
coopérative agro-alimentaire
du Saguenay Lac St-Jean
Saint-Bruno

Coopérative fédérée de Québec's consolidated financial statements and accompanying notes, for the year ended October 26, 2002, are management's responsibility and have been approved by the Board of Directors. This responsibility involves the selection of appropriate accounting methods as well as the use of sound judgment in the establishment of reasonable and fair estimates according to Canadian generally accepted accounting principles and the By-laws under the *Cooperatives Act*. Financial and operating information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

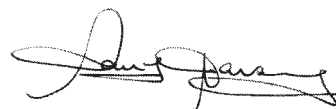
Management maintains accounting and internal control systems which ensure reliability of financial information and provide reasonable assurance that assets are properly accounted for and safeguarded. The Internal Audit Department evaluates accounting and internal control systems on an ongoing basis and regularly reports its findings and recommendations to management and the Audit Committee.

The Board of Directors carries out its responsibility for the consolidated financial statements, mainly through its Audit Committee consisting of outside directors. The Audit Committee holds regular meetings with the internal and external auditors and with management to discuss the application of internal controls and examine the consolidated financial statements and other matters of financial reporting. The Audit Committee reports and submits its recommendations to the Board of Directors.

The auditors appointed by the members, Ernst & Young LLP, Chartered Accountants, have audited the consolidated financial statements and their report appearing hereinafter indicates the scope of their audit and their opinion.



Pierre Gauvreau, FCA
Chief Executive Officer



Paul Noiseux, CGA
Treasurer and Chief Financial Officer

Montréal, January 16, 2003

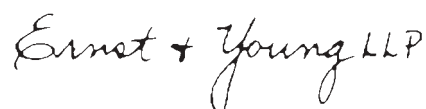
To the members of Coopérative fédérée de Québec

We have audited the consolidated balance sheet of Coopérative fédérée de Québec as at October 26, 2002 and the consolidated statements of earnings and the Cooperative's equity and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian 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 Coopérative fédérée de Québec as at October 26, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
January 10, 2003
[except for notes 5, 6 and 14,
which are dated January 16, 2003]



Ernst & Young LLP
Chartered Accountants

Consolidated Statement of Earnings and Cooperative's Equity

Year ended October 26, 2002

[thousands of dollars]	2002	2001
Sales	\$ 2,480,291	\$ 2,431,329
Operating expenses <i>[note 3]</i>		
Cost of sales, selling and administrative expenses	2,428,847	2,375,914
Financial expenses	11,364	15,504
	2,440,211	2,391,418
Operating income	40,080	39,911
Other results		
Share of results of entities subject to significant influence	1,829	2,107
Gains on disposal of assets	5,664	919
Gain on dilution <i>[note 4]</i>	—	20,468
	7,493	23,494
Operating earnings before non-controlling interests in a subsidiary	47,573	63,405
Non-controlling interests in a subsidiary	4,865	715
Operating earnings from continuing operations	42,708	62,690
Distribution of operating earnings from continuing operations		
Patronage refunds <i>[note 5]</i>	17,200	16,200
Income taxes <i>[note 6]</i>	8,309	8,617
Net earnings from continuing operations after distribution	17,199	37,873
Discontinued operations	140	161
Net earnings after distribution	17,059	37,712
Cooperative's equity, beginning of year	152,556	114,844
Cooperative's equity, end of year	\$ 169,615	\$ 152,556

These notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at October 26, 2002

[thousands of dollars]	2002	2001
ASSETS		
Current		
Accounts receivable	\$ 188,391	\$ 185,463
Inventories	179,388	165,323
Prepaid expenses	5,419	3,354
Future income taxes [note 6]	5,268	3,254
Advances to an entity subject to significant influence	—	615
Investments – current portion [note 7]	1,348	1,074
	379,814	359,083
Investments [note 7]	54,900	57,734
Property, plant and equipment [note 8]	309,477	287,269
Other assets [note 9]	25,597	16,995
	\$ 769,788	\$ 721,081
LIABILITIES		
Current		
Bank overdraft	\$ 17,818	\$ 13,739
Short-term borrowings [note 10]	3,842	532
Accounts payable	198,212	195,910
Income taxes payable	5,715	7,072
Patronage refunds payable [note 5]	5,734	6,480
Redemption of preferred shares payable [note 14]	—	655
Long-term debt – current portion [note 11]	12,751	12,305
Convertible debentures – current portion [note 13]	12,000	—
	256,072	236,693
Long-term debt [note 11]	178,212	167,946
Accrued benefit obligations [note 12]	12,077	10,378
Deferred gain [note 1]	1,034	—
Future income taxes [note 6]	10,093	6,258
Non-controlling interests [note 15 c]	41,137	42,000
Convertible debentures [note 13]	24,000	36,000
Preferred shares [note 14]	7,058	5,672
EQUITY		
Common shares [note 14]	70,490	63,578
Cooperative's equity	169,615	152,556
	\$ 769,788	\$ 721,081

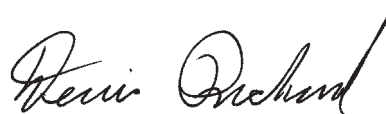
Commitments and contingencies [note 15]

These notes are an integral part of the consolidated financial statements.

On behalf of the Board,



Paul Massicotte, Director



Denis Richard, Director

Coopérative fédérée
de Québec

Consolidated Statement of Cash Flows

Year ended October 26, 2002

[thousands of dollars]	2002	2001
OPERATIONS		
Cash receipts from customers	\$ 2,475,407	\$ 2,409,032
Cash paid to suppliers and employees	(2,393,288)	(2,336,723)
Financial expenses paid	(15,059)	(15,402)
Dividends received from entities subject to significant influence	1,276	548
Interest received	1,698	2,322
Income taxes paid	(10,655)	(2,455)
Patronage refunds paid in cash	(6,480)	(2,800)
Cash flows related to operating activities	52,899	54,522
INVESTMENT		
Acquisition of businesses [note 1]	(24,000)	(93,799)
Disposal of business [note 2]	10,079	—
Acquisition of investments	(6,452)	(8,847)
Liquidation of investments	8,713	5,404
Advances to an entity subject to significant influence	615	14,392
Acquisition of property, plant and equipment	(42,123)	(31,144)
Proceeds from disposal of property, plant and equipment	738	2,216
Additions to other assets	(1,856)	(474)
Proceeds from disposal of other assets	5,424	488
Acquisition of non-controlling interests	(4,548)	(4,548)
Cash flows related to investing activities	(53,410)	(116,312)
FINANCING		
Change in short-term borrowings	(600)	(49,407)
New long-term debt	14,686	137,661
Repayment of long-term debt	(12,650)	(76,863)
Payment to non-controlling interests	(1,181)	(1,548)
Issuance of subsidiary's shares to a third party	—	50,000
Issuance of preferred shares	3,061	1,989
Redemption of preferred shares	(2,330)	(1,928)
Issuance of common shares	97	106
Redemption of common shares	(4,651)	(3,023)
Cash flows related to financing activities	(3,568)	56,987
Increase in bank overdraft	(4,079)	(4,803)
Bank overdraft, beginning of year	(13,739)	(8,936)
Bank overdraft, end of year	\$ (17,818)	\$ (13,739)

These notes are an integral part of the consolidated financial statements.

[All tabular amounts are in thousands of dollars.]

GENERAL

Coopérative fédérée de Québec (the “Cooperative”) was established by a special law of the Province of Québec. It is active mainly in supplying farm operations and processing and marketing agricultural products.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of the Cooperative’s financial statements in accordance with Canadian generally accepted accounting principles and the By-laws under the *Cooperatives Act* requires management to establish reasonable and fair estimates based on appropriate assumptions. These estimates can affect the amounts of assets and liabilities recorded on the balance sheet, the amounts of income and expenses accounted for during the year and the disclosure of commitments and contingencies at the financial statement date. Actual results could differ from these estimates. The significant accounting policies selected are summarized as follows:

Basis of consolidation

The consolidated financial statements include the accounts of Coopérative fédérée de Québec, its wholly-owned subsidiaries and its controlling interests in Olymel L.P. They also include the Cooperative’s interest in its joint ventures, directly owned or via its Olymel L.P. subsidiary, accounted for using the proportionate consolidation method.

The interests in entities subject to significant influence are accounted for under the equity method.

Other long-term investments are carried at cost. Periodically, the Cooperative appraises the value of its investments. If an investment is subject to a permanent decline in value, its book value is reduced in order to take into account this loss in value.

Inventories

The raw materials and supply inventories are valued at the lower of cost (first in, first out method) and replacement cost. Goods in process and finished good inventories are valued at the lower of cost (first in, first out method, average cost method, or standard cost method, according to the sector) and net realizable value.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on a straight-line or a declining balance basis, using rates that depreciate assets over their estimated useful lives.

Goodwill

Goodwill is accounted for at cost and amortized on a straight-line basis over a period generally not exceeding 20 years. At each balance sheet date, the Cooperative evaluates whether there has been a permanent impairment in value of the unamortized goodwill. In doing so, the Cooperative determines the recoverability of goodwill based on an estimate of the undiscounted cash flow over the remaining period of amortization of each business to which the goodwill relates.

Rights

Rights include production rights and exclusive supply rights. They are accounted for at cost. They are amortized on a straight-line basis over a 10-year period for the production rights and over a 20-year period for the exclusive supply rights.

Deferred gain

The deferred gain was realized in the course of an investment in a joint venture. This deferred gain, which represents half of the clientele disposed of by the Cooperative when the transaction occurred, is amortized on a straight-line basis over a 15-year period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [cont.]

Foreign currencies

Transactions in foreign currencies are translated into Canadian dollars. Monetary items on the consolidated balance sheet are translated at the rates of exchange prevailing at year-end while non-monetary items are translated at the rates prevailing on the date of the transaction. Income and expense items are translated at the rates of exchange prevailing on the transaction date. Gains and losses on translation of foreign currencies are accounted for in the consolidated earnings.

Employee future benefits

The Cooperative accounts for its obligations under the employee future benefits plans offered upon retirement against the plans' accumulated assets. The cost of pension and post-retirement benefits earned by employees is determined from actuarial calculations according to the projected benefit method prorated on services based on management's best long-term assumptions of salary projections, the retirement and termination ages of employees and estimated health-care costs. The excess net actuarial gains and losses over 10% of the greater of the accrued benefit plan obligation and the fair value of the plans' assets is recorded in income over the estimated average remaining service period of the participants. Plan assets are assessed at their fair value.

Patronage refunds

The amount and terms of payment of patronage refunds are determined by the Board of Directors after the year-end. Patronage refunds are accounted for in the year to which they relate. In the case of patronage refunds paid in the form of shares, these shares are considered to be issued at the year-end preceding the Board of Directors' resolution.

Derivative financial instruments

The Cooperative is a party to a number of foreign exchange contracts, mainly in U.S. and Japanese currencies, to manage exchange-rate risks. Gains and losses on foreign exchange contracts entered into to hedge future transactions are deferred and accounted for when these transactions occur. Moreover, the Cooperative has other derivative financial instruments to manage interest rate risks. Payments and receipts under derivative financial instruments are recognized as financial expenses at the same time as interest expense on the related liabilities.

The Cooperative often sells and buys grains. Consequently, the Cooperative is committed to a number of forward contracts on the price of different grains in order to cover certain identifiable future risks on the price of these commodities. Gains and losses on these contracts, realized or not, are presented in the cost of sales, selling and administrative expenses. The Cooperative also concluded forward contracts on the price of pork in order to cover certain identifiable future risks on these prices for a portion of its supplies. Gains and losses on these contracts are presented in the cost of sales, selling and administrative expenses at the same time as the underlying elements they cover are accounted for.

Environmental obligations

Environmental expenses related to current operations are accounted for as expenses or capitalized according to their nature. Current expenses caused by past events that do not generate future revenues are accounted for as expenses in the current year. Liabilities are recorded when expenses are likely to occur and may be reasonably estimated.

Income taxes

The Cooperative follows the liability method of accounting for income taxes. Under this method, future income taxes reflect the tax consequences on subsequent years of temporary differences between the carrying values and the tax bases of assets and liabilities.

Year-end

The Cooperative's year-end is the last Saturday of October. The October 26, 2002 and October 27, 2001 year-ends include 52 weeks.

Notes to Consolidated Financial Statements

Year ended October 26, 2002

1) ACQUISITION OF BUSINESSES

2002

On October 6, 2002, via its subsidiary Olymel L.P., the Cooperative acquired a 50% interest in Prince L.P.

This acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations were included in the financial statements from the date of the acquisition, according to the proportionate consolidation method. Net assets acquired as well as their considerations were as follows:

Net assets acquired		
Short-term assets		\$ 12,822
Property, plant and equipment		27,408
Goodwill		6,362
Total assets acquired		<u>46,592</u>
Short-term liabilities		9,986
Long-term debt		8,676
Future income taxes		2,896
Total liabilities assumed		<u>21,558</u>
		<u>\$ 25,034</u>
Considerations		
Cash		\$ 24,000
Disposal of clientele		1,034
		<u>\$ 25,034</u>

2001

On April 2, 2001, the Cooperative acquired certain assets of La Co-operative Avantage Inc. (AgriEst), a cooperative located in St-Isidore de Prescott, Ontario. On April 17, 2001, via its subsidiary, Olymel L.P., the Cooperative acquired the net assets of Premium Brands' hog slaughtering and processing plant in Red Deer, Alberta. Finally, on May 17, 2001, the Cooperative acquired the assets of Ridley Inc.'s feed milling operation in New Liskeard, Ontario.

These acquisitions were accounted for using the purchase method of accounting and, accordingly, the results of operations were included in the financial statements from the respective dates of acquisition. Net assets acquired as well as their considerations were as follows:

	Red Deer plant	Other acquisitions	Total
Net assets acquired			
Working capital items	\$ 13,645	\$ 1,589	\$ 15,234
Property, plant and equipment	73,000	5,565	78,565
	<u>\$ 86,645</u>	<u>\$ 7,154</u>	<u>\$ 93,799</u>
Considerations			
Long-term debt	\$ 33,000	\$ 165	\$ 33,165
Cash	53,645	6,989	60,634
	<u>\$ 86,645</u>	<u>\$ 7,154</u>	<u>\$ 93,799</u>

Notes to Consolidated Financial Statements

Year ended October 26, 2002

2) DISPOSAL OF BUSINESS

On December 1, 2001, the Cooperative's Joliette agricultural supply section (Profid'Or) became independent. As part of this process, the Cooperative sold the assets of Profid'Or to the new independent cooperative at carrying value as at November 30, 2001.

Net assets sold, as well as the considerations, are as follows:

Net assets sold	
Short-term assets	\$ 13,062
Investments	1,236
Property, plant and equipment	2,908
Production rights	1,869
Short-term liabilities	<u>(2,238)</u>
	\$ 16,837
Considerations	
Rights	\$ 6,158
Investment	600
Cash	<u>10,079</u>
	\$ 16,837

3) OPERATING EXPENSES

Operating expenses include the following items:

	2002	2001
Depreciation of property, plant and equipment	\$ 30,615	\$ 26,851
Amortization of other assets	3,906	2,917
Interest on short-term borrowings	102	4,238
Interest on long-term debt	9,794	9,148
Interest on preferred shares	284	260
Interest on convertible debentures	2,882	4,180
Interest income	<u>(1,698)</u>	<u>(2,322)</u>

4) GAIN ON DILUTION

On April 17, 2001, the Cooperative's subsidiary Olymel L.P., issued additional shares to a partner for a consideration of \$50,000,000 in contribution. The shares of this new partner represent a 17% interest in the subsidiary. As at October 27, 2001, this transaction created a gain on dilution of \$20,468,000 for the Cooperative.

5) PATRONAGE REFUNDS

In accordance with the provisions of the Act governing Coopérative fédérée de Québec, the directors, at their meeting held on January 16, 2003, declared patronage refunds of \$17,200,000 [\$16,200,000 in 2001] out of the year's earnings. They resolved that these refunds will be paid in the following manner:

	2002	2001
Cash	\$ 5,734	\$ 6,480
Common shares, Class B	5,733	7,290
Common shares, Class D	<u>5,733</u>	<u>2,430</u>
	\$ 17,200	\$ 16,200

The effects of this resolution have been accounted for in these consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended October 26, 2002

6) INCOME TAXES

Significant components of the income tax expense are as follows:

	2002	2001
Current tax expense	\$ 10,229	\$ 9,238
Future tax benefit relating to occurrence and reversal of temporary differences	(1,075)	(579)
Recovery of income taxes arising from the use of prior losses	(845)	(42)
Income tax expense on operating earnings from continuing operations	\$ 8,309	\$ 8,617

The reconciliation of the income tax expense with the amount resulting from the multiplication of the operating earnings from continuing operations after patronage refunds by the statutory income tax rates is summarized as follows:

	2002	2001
Operating earnings from continuing operations	\$ 42,708	\$ 62,690
Patronage refunds	(17,200)	(16,200)
Earnings for income tax purposes	\$ 25,508	\$ 46,490
Income taxes at combined federal and provincial rates of 38.36% [38.65% in 2001]	\$ 9,785	\$ 17,968
Manufacturing and processing profits deduction	(1,742)	(3,158)
Gain on dilution	—	(6,922)
Recovery of income taxes arising from the use of prior losses	(845)	(42)
Effect of non-deductible expenses for tax purposes	1,043	716
Other items	68	55
Income tax expense on operating earnings from continuing operations	\$ 8,309	\$ 8,617

Significant components of future income tax assets and liabilities are as follows:

	2002	2001
Non-deductible provisions and reserves for tax purposes	\$ 5,397	\$ 3,466
Other items – net	(129)	(212)
Future income tax assets	\$ 5,268	\$ 3,254
Excess of carrying value of property, plant and equipment over their tax basis	\$ 13,227	\$ 11,298
Excess of carrying value of investments over their tax basis	1,257	994
Excess of carrying value of other assets over their tax basis	2,366	(797)
Excess of carrying value of accrued benefit obligations over their tax basis	(3,325)	(2,872)
Patronage refunds carried forward	(3,432)	(2,359)
Other items – net	—	(6)
Future income tax liabilities	\$ 10,093	\$ 6,258

As at October 26, 2002, the Cooperative did not have any unrecorded capital losses. As at October 27, 2001, the Cooperative had unrecorded capital losses amounting to \$3,547,000 that could have been used to reduce future taxable capital gains.

Notes to Consolidated Financial Statements

Year ended October 26, 2002

7) INVESTMENTS

	2002	2001
Investments in entities subject to significant influence	\$ 10,683	\$ 11,947
Investments in cooperatives		
Agropur Cooperative preferred shares	21,053	23,410
Shares and other securities of supply cooperatives	17,952	17,937
Shares and other securities of affiliated cooperatives	1,691	681
	40,696	42,028
Mortgage loans and notes receivable	4,869	4,833
	56,248	58,808
Investments – current portion	1,348	1,074
	\$ 54,900	\$ 57,734

8) PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated depreciation	Book value
2002			
Land	\$ 11,722	\$ —	\$ 11,722
Pavements	8,125	5,225	2,900
Buildings	227,920	72,291	155,629
Machinery and equipment	370,157	235,509	134,648
Automotive equipment	18,960	14,382	4,578
	\$ 636,884	\$ 327,407	\$ 309,477
2001			
Land	\$ 11,363	\$ —	\$ 11,363
Pavements	8,202	5,069	3,133
Buildings	214,591	67,977	146,614
Machinery and equipment	337,576	216,374	121,202
Automotive equipment	19,602	14,645	4,957
	\$ 591,334	\$ 304,065	\$ 287,269

The average depreciation rates used for 2002 and 2001 are as follows:

pavements – 9%; buildings – 5%; machinery and equipment – 16%; automotive equipment – 22%.

9) OTHER ASSETS

	2002	2001
Goodwill	\$ 17,011	\$ 12,572
Rights	7,296	3,816
Deferred expenses	1,290	607
	\$ 25,597	\$ 16,995

Notes to Consolidated Financial Statements

Year ended October 26, 2002

10) SHORT-TERM BORROWINGS

Short-term borrowings stem from a subsidiary's credit facilities and the Cooperative's interest in a joint venture. As at October 26, 2002, available committed lines of credit, drawn under loans on demand credit lines, total \$15,500,000 bearing interest at such date at rates varying from 4.25% to 4.50% [in 2001, 4.63% for loans on demand credit lines drawn and 4.09% for current loans under the short-term bankers' acceptances program].

11) LONG-TERM DEBT

	2002	2001
Line of credit, ⁽¹⁾ renewable annually, drawn under loans on demand credit lines at prime rate [4.50% as at October 26, 2002] and under bankers' acceptances at rates varying from 3.86% to 3.90%, for the portion not subject to interest-rate swaps [note 16 a)] [in 2001, term bank loan, drawn under bankers' acceptances, at rates varying from 3.60% to 4.21%, for an amount of \$88,000,000 and short-term borrowings, drawn under loans on demand credit lines, at the rate of 4.63% as at October 27, 2001, and used under bankers' acceptances at the rate of 4.09% as at October 27, 2001, for an amount of \$35,175,000]	\$ 136,819	\$ 123,175
Term notes, at a fixed rate of 8.53%, with a value of US\$22,500,000 [US\$30,000,000 in 2001], repayable in annual capital instalments of US\$7,500,000, maturing in November 2004 [including a debit cross-currency interest-rate swap position of \$3,820,500 [\$5,370,000 in 2001]] [note 16 a)]	31,444	41,925
Term note, at a fixed rate of 10.36%, repayable in annual capital instalments of \$666,667, maturing in November 2004	2,000	2,667
Share of two mortgage loans of a joint venture, secured by mortgages on its real estate, one at the prime rate plus 0.25%, repayable in monthly capital instalments of \$17,336 and the other at a rate of 5.80% repayable in monthly instalments of \$29,248, including capital and interest, both of which are renewable in October 2006	7,213	7,463
Share of term financing of a joint venture, at a variable rate [4.20% as at October 26, 2002], repayable in 11 quarterly instalments of \$187,500 commencing on July 1, 2003, maturing on April 1, 2006. The joint venture has an interest-coverage contract which converts a portion of the debt at a fixed rate of 6.045%. As at October 26, 2002, the amount of the contract was \$1,000,000; it will decrease by \$500,000 per year until April 1, 2004	8,697	—
Mortgage loans and other debts, at rates varying from 4.75% to 9%, maturing between August 2003 and October 2007	3,609	3,898
	189,782	179,128
Obligations under capital leases, at rates from 5.12% to 8.25%, maturing between June 2003 and January 2007	1,181	1,123
	190,963	180,251
Long-term debt – current portion	12,751	12,305
	\$ 178,212	\$ 167,946

(1) On December 21, 2001, the Cooperative concluded a new credit facility that modified the maturities and conditions of its long-term debt. The Cooperative has a global credit facility of \$300,000,000, which consists of a line of credit renewable annually. If not renewed, it will be converted into a two-year term bank loan. The Cooperative can use these credits under the following methods: loans on demand credit lines, bankers' acceptances, advances at LIBOR, and letters of credit. The interest rate, adjusted on a quarterly basis, is governed by the conditions of the agreement. The lenders have agreed to renew the Cooperative's line of credit until December 12, 2003.

Except for the amounts financed with the line of credit, which total \$136,819,000, capital payments required over the next five years are: 2003 – \$12,751,000; 2004 – \$13,083,000; 2005 – \$12,977,000; 2006 – \$7,803,000; 2007 – \$7,530,000.

12) EMPLOYEE FUTURE BENEFITS

The Cooperative has a number of defined benefit and defined contribution plans providing pension and post-retirement benefits to most of its employees. Post-retirement benefits offered by the Cooperative to its retired employees include health-care benefits and life insurance.

The total expense for the Cooperative's defined contribution plans is \$6,924,000 [\$6,121,000 in 2001].

Information on the Cooperative's defined benefit plans and other retirement benefits is as follows:

2002	Pension plans	Post-retirement benefits	Total
Accrued benefit obligations			
Balance, beginning of year	\$ 90,811	\$ 12,390	\$ 103,201
Current service cost for the year	2,242	926	3,168
Interest cost	5,407	858	6,265
Benefits paid	(5,215)	(240)	(5,455)
Actuarial losses (gains)	(5,910)	4,008	(1,902)
Balance, end of year	<u>87,335</u>	<u>17,942</u>	<u>105,277</u>
Plan assets			
Fair value, beginning of year	86,732	—	86,732
Actual return on plan assets	(2,186)	—	(2,186)
Employer contributions	1,882	240	2,122
Employee contributions	409	—	409
Benefits paid	(5,215)	(240)	(5,455)
Actuarial losses	(2,909)	—	(2,909)
Fair value, end of year	<u>78,713</u>	<u>—</u>	<u>78,713</u>
Funded status – plan deficit	(8,622)	(17,942)	(26,564)
Unamortized net actuarial loss	<u>10,393</u>	<u>4,094</u>	<u>14,487</u>
Accrued benefit asset (liability)	<u>\$ 1,771</u>	<u>\$ (13,848)</u>	<u>\$ (12,077)</u>

12) EMPLOYEE FUTURE BENEFITS [cont.]

<u>2001</u>	Pension plans	Post-retirement benefits	Total
Accrued benefit obligations			
Balance, beginning of year	\$ 83,769	\$ 10,845	\$ 94,614
Current service cost for the year	1,959	877	2,836
Interest cost	5,510	759	6,269
Benefits paid	(5,367)	(194)	(5,561)
Plan amendments	497	103	600
Acquisitions	4,443	—	4,443
Balance, end of year	<u>90,811</u>	<u>12,390</u>	<u>103,201</u>
Plan assets			
Fair value, beginning of year	86,244	—	86,244
Actual return on plan assets	853	—	853
Employer contributions	1,178	194	1,372
Employee contributions	332	—	332
Benefits paid	(5,367)	(194)	(5,561)
Acquisitions	3,843	—	3,843
Other	(351)	—	(351)
Fair value, end of year	<u>86,732</u>	<u>—</u>	<u>86,732</u>
Funded status – plan deficit	(4,079)	(12,390)	(16,469)
Unamortized net actuarial loss	<u>5,997</u>	<u>94</u>	<u>6,091</u>
Accrued benefit asset (liability)	<u>\$ 1,918</u>	<u>\$ (12,296)</u>	<u>\$ (10,378)</u>

The significant actuarial assumptions used to assess the Cooperative's accrued benefit obligations and plan assets are as follows as at October 26, 2002 and October 27, 2001:

	Pension plans	Post-retirement benefits
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	6.5% [7.5% in 2001]	N/A
Rate of compensation increase	4% [3.5% to 5% in 2001]	4% [3.5% to 5% in 2001]

Post-retirement benefits are unfunded. The accrued benefit obligation and fair value of defined benefit plan assets that are not fully funded amount to \$32,357,000 and \$22,695,000 respectively [\$31,354,000 and \$22,464,000 in 2001].

For valuation purposes, a 14% annual growth rate in the cost of covered health-care was assumed for the first year, decreasing by 0.5% annually over the next ten years to remain at 8.5% thereafter. Also, a 7% growth rate in health-care benefits and life insurance was assumed for the first year, decreasing by 0.5% annually for the next six years to remain at 3.5% thereafter.

12) EMPLOYEE FUTURE BENEFITS [cont.]

The Cooperative's net defined benefit plan expense is as follows:

<u>2002</u>	Pension plans	Post-retirement benefits	Total
Current service cost for the year, net of employee contributions	\$ 1,833	\$ 926	\$ 2,759
Interest cost	5,407	858	6,265
Expected return on plan assets	(5,353)	—	(5,353)
Amortization of actuarial loss	141	8	149
Net benefit plan expense	\$ 2,028	\$ 1,792	\$ 3,820

<u>2001</u>	Pension plans	Post-retirement benefits	Total
Current service cost for the year, net of employee contributions	\$ 1,627	\$ 877	\$ 2,504
Interest cost	5,510	759	6,269
Expected return on plan assets	(6,477)	—	(6,477)
Net benefit plan expense	\$ 660	\$ 1,636	\$ 2,296

13) CONVERTIBLE DEBENTURES

Debentures with a par value of \$36,000,000 are convertible at any time at the Cooperative's option into a new series of preferred shares. In the event of the debentures' conversion into the new series of preferred shares, these shares would have the same rights and restrictions as the convertible debentures.

Interest is payable monthly at a minimum annual rate of 4% and a maximum of 15%, and varies according to a method of calculation based on the level of earnings. The debentures are redeemable in three equal amounts of \$12,000,000 due on November 1, 2002, 2003 and 2004.

The convertible debentures are subordinated to the Cooperative's debt.

14) SHARE CAPITAL

The Cooperative's share capital is variable and unlimited with regard to the number of shares issuable. The rights, restrictions and conditions relating to each type of share are determined by the Board of Directors. The share capital consists of:

Preferred shares

Class A preferred shares with a par value of \$1. These shares are non-voting, non-interest-bearing and redeemable at their par value upon a decision of the Board of Directors.

Preferred shares with a par value of \$10, issued to members and employees of the Cooperative in accordance with the Québec Cooperative Investment Plan, bearing interest at a rate determined by the Board of Directors. They are redeemable at their par value upon a decision of the Board of Directors, from the third year following issuance, provided that certain conditions are met, and in particular that the Cooperative's equity has increased by a minimum of 50% of the redemption amount since the issuance date.

Notes to Consolidated Financial Statements

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14) SHARE CAPITAL [cont.]

Common shares

Class A common shares, mainly with a par value of \$25. Holding such shares is an essential condition to qualify as a member and obtain voting rights. They are redeemable at their par value upon a decision of the Board of Directors.

Class B common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. However, the Board of Directors cannot redeem Class B common shares, if there are shares outstanding other than Class B common shares or Class A common shares. They were issued to members as partial payment of patronage refunds.

Class D common shares, with a par value of \$1, non-voting and redeemable at their par value upon a decision of the Board of Directors. They were issued to members as partial payment of patronage refunds.

Class AUXILIARY MEMBERS common shares, with a par value of \$25, non-voting and redeemable at their par value upon a decision of the Board of Directors.

At year-end, the issued and fully paid shares were as follows:

	Number		Amount	
	2002	2001	2002	2001
PREFERRED SHARES				
Class A, \$1 par value	—	655,318	\$ —	\$ 655
Québec Cooperative Investment Plan, \$10 par value				
1998 series, redeemed in 2001, 5%	—	165,358	—	1,654
1999 series, redeemable in 2002, 5%	201,294	203,446	2,013	2,034
2000 series, redeemable in 2003, 5%	198,369	198,369	1,984	1,984
2001 series, redeemable in 2004, 4.5%	306,108	—	3,061	—
	705,771	567,173	7,058	5,672
	705,771	1,222,491	7,058	6,327
Redemption of Class A preferred shares payable	—	(655,318)	—	(655)
	705,771	567,173	\$ 7,058	\$ 5,672
COMMON SHARES				
Class A	37,566	57,523	\$ 940	\$ 1,443
Class B	34,110,925	28,393,577	34,111	28,394
Class D	35,435,469	33,739,613	35,436	33,741
Class AUXILIARY MEMBERS	114	—	3	—
	69,584,074	62,190,713	\$ 70,490	\$ 63,578

Notes to Consolidated Financial Statements

Year ended October 26, 2002

14) SHARE CAPITAL [cont.]

This year's transactions related to share capital were carried out for cash considerations with the exception of patronage refunds paid in the form of shares. These transactions are as follows:

	Number		Amount	
	2002	2001	2002	2001
PREFERRED SHARES				
Balance, beginning of year	1,222,491	1,576,410	\$ 6,327	\$ 6,266
Issued:				
Preferred shares, \$10 par value	306,108	198,869	3,061	1,989
Redeemed:				
Preferred shares, Class A	(655,318)	(400,000)	(655)	(400)
Preferred shares, \$10 par value	(167,510)	(152,788)	(1,675)	(1,528)
	(822,828)	(552,788)	(2,330)	(1,928)
	705,771	1,222,491	7,058	6,327
Redemption of Class A preferred shares payable	—	(655,318)	—	(655)
Balance, end of year	705,771	567,173	\$ 7,058	\$ 5,672
COMMON SHARES				
Balance, beginning of year	62,190,713	55,454,953	\$ 63,578	\$ 56,775
Issued:				
Common shares, Class A	3,775	4,280	94	107
Patronage refunds in common shares, Class B	5,732,760	7,262,527	5,733	7,263
Patronage refunds in common shares, Class D	5,732,760	2,420,815	5,733	2,421
Common shares, Class AUXILIARY MEMBERS	114	—	3	—
	11,469,409	9,687,622	11,563	9,791
Redeemed:				
Common shares, Class A	(23,732)	(1,409)	(598)	(36)
Common shares, Class B	(15,412)	(62,704)	(15)	(63)
Common shares, Class D	(4,036,904)	(2,887,749)	(4,038)	(2,889)
	(4,076,048)	(2,951,862)	(4,651)	(2,988)
Balance, end of year	69,584,074	62,190,713	\$ 70,490	\$ 63,578

During the year, the Board of Directors authorized the creation of a new common share category, Class AUXILIARY MEMBERS common shares.

On August 5, 2002, the Board of Directors authorized the redemption of 201,294 preferred shares issued under the Québec Cooperative Investment Plan, 1999 series, for a cash consideration of \$2,012,940 as of November 30, 2002. On September 4, 2002, they also authorized a preferred share issue under the Québec Cooperative Investment Plan, 2002 series, as of November 30, 2002, in which 409,708 preferred shares were issued, for a cash consideration of \$4,097,080. As well, on January 16, 2003, the Board of Directors authorized the redemption of 6,517,540 Class D common shares issued in 1986, 1987, 1988 and 1989, for a cash consideration of \$6,517,540.

15) COMMITMENTS AND CONTINGENCIES

a) Operating leases

The Cooperative has entered into long-term operating leases for buildings, machinery and automotive equipment. The minimum future rental expenses of the Cooperative and its joint ventures for these leases totalled \$50,391,000. Future minimum lease payments for each of the next five years are as follows:
2003 – \$8,235,000; 2004 – \$6,358,000; 2005 – \$5,422,000; 2006 – \$4,890,000; 2007 – \$2,850,000.

In addition, the Cooperative is committed to making rental payments to one of its joint ventures for premises it occupies. The partner's share of the commitments represents \$789,000 annually for the next four years and \$975,000 annually for the following 11 years.

b) Guarantees

The Cooperative is committed under letters of guarantee to financial institutions for an amount of \$12,264,000 as at October 26, 2002. The Cooperative is also committed under comfort letters to financial institutions with regard to advances to entities subject to significant influence for a maximum amount of \$26,330,000. The balance of these advances owed to financial institutions as at October 26, 2002 amounted to \$14,813,000. The Cooperative's commitment under these advances is to buy back the inventories at a value related to their selling price.

c) Acquisition of the shares of non-controlling shareholders

The shares of a group of non-controlling shareholders of one of the Cooperative's subsidiaries became redeemable on February 1, 1997 and on February 1 of each subsequent year until 2004. The purchase price of these shares is \$4,548,000 annually and is financed by the renewable line of credit. Moreover, the non-controlling interests are limited to a priority distribution of the subsidiary's net earnings corresponding to 7.98% of the balance of the non-redeemed shares as at February 1 of each year. Letters of guarantee have been issued in favour of the non-controlling shareholders in payment of the shares and the non-controlling interests due to these shareholders.

Moreover, another non-controlling partner of this subsidiary of the Cooperative has owned 17% of the shares since April 17, 2001. Once a year, beginning on April 17, 2008, this partner will benefit from a put option to sell all its shares to the Cooperative, which is required to buy them back. The disposal of the shares as well as their payment may be completed in four annual instalments, equal and consecutive, or more speedily at the option of the Cooperative. The purchase price of the shares will be equivalent to a value based on a formula established between the parties.

d) Claims and lawsuits

In the ordinary course of business, various claims and lawsuits are brought against the Cooperative. Legal proceedings are often subject to numerous uncertainties and it is not possible to predict the outcome of individual cases. In management's opinion, the Cooperative has made adequate provision for or has adequate insurance to cover all claims and lawsuits, and their settlement should not have a significant impact on the Cooperative's financial position.

16) FINANCIAL INSTRUMENTS

a) Derivative financial instruments

In the ordinary course of business, the Cooperative uses a number of derivative financial instruments, such as foreign exchange contracts, swaps and future contracts on commodities to reduce its exposure to foreign-exchange, interest-rate and price fluctuations. These instruments are used exclusively for risk-management purposes.

Foreign exchange contracts

The following table sets out the amounts incurred at the reporting dates with respect to foreign exchange contracts with maturities of less than one year:

Type	Currency	Average exchange rate	
		2002	2001
Sale	US\$37,800,600 [US\$15,415,000 in 2001]	1.5861	1.5632
Sale	¥2,831,959,898 [¥3,259,436,257 in 2001]	0.012924	0.012989
Sale	A\$5,664,543 [A\$2,833,000 in 2001]	0.8642	0.7826
Purchase	US\$7,800,000 [US\$7,450,000 in 2001]	1.5658	1.5723

Forward contracts on the price of pork

The Cooperative also concluded forward contracts on the price of pork, with maturities of less than one year, in order to reduce its exposure to fluctuations in the price of pork. As at October 26, 2002, the Cooperative was committed to sell 4,735,506 kg (3,927,000 kg in 2001) of pork, in the amount of \$7,132,000 [\$7,500,000 in 2001].

Forward contracts on the price of grains

The Cooperative also concluded forward contracts on the price of various grains, with maturities of less than one year, in order to reduce its exposure to fluctuations in the price of grains. As at October 26, 2002, the Cooperative was committed to sell 43,088 metric tons of grains [12,690 metric tons in 2001] in the amount of \$6,386,000 [\$1,394,000 in 2001].

Cross-currency interest-rate swap

As described in note 11, the Cooperative concluded a cross-currency interest-rate swap which resulted in the conversion of the capital of term notes, with a value of US\$22,500,000 [US\$30,000,000 in 2001] into a capital of C\$31,444,000 [C\$41,925,000 in 2001] and a fixed rate of 9.75% in order to determine the capital and interest payments in Canadian dollars until maturity.

Interest-rate swaps

Used lines of credit for a total of \$26,000,000 are subject to interest-rate swaps at rates varying from 4.12% to 6.18%, maturing between July 2003 and June 2005 [in 2001, total amount of \$15,000,000 subject to interest-rate swaps at rates varying from 5.83% to 6.18%, maturing between October 2002 and October 2003].

b) Credit risk

Credit risk related to derivative financial instruments is limited to unrealized gains, if any. The Cooperative is likely to incur losses if parties fail to meet their commitments related to these instruments. However, the Cooperative views this risk as minimal or non-existent since it deals only with highly-rated financial institutions.

In the ordinary course of business, the Cooperative evaluates the financial position of its clients on a regular basis and examines the credit history of new clients. The allowance for doubtful accounts is established based on the client's specific credit risk and historical tendencies. Moreover, the Cooperative holds security on the assets and investments of certain clients in the event of default. The Cooperative believes the credit risk regarding receivables to be minimal due to the diversification of its clients and their industry segments.

16) FINANCIAL INSTRUMENTS [cont.]

c) Fair value of financial instruments

The fair value of accounts receivable, short-term borrowings, accounts payable, patronage refunds payable and redemption of preferred shares payable approximates their carrying amounts due to the short-term nature of these items.

The fair value of investments in cooperatives was not established since it is not possible, after making a reasonable effort, to determine the timing of these inflows. The fair value of mortgage loans and notes receivable approximates their carrying amounts.

The fair value of long-term debt is estimated at \$198,610,000 [\$188,524,000 in 2001] using a discounted future cash flow analysis based on corresponding borrowing rates as at the balance sheet date for similar types and maturities of borrowing arrangements.

The fair value of the convertible debentures was not established since the interest varies according to a method of calculation based on the level of earnings as described in note 13. The fair value of the preferred shares cannot be established since it is not possible, after making a reasonable effort, to determine the timing of these outflows.

The fair value of the derivative financial instruments reflects the estimated amounts the Cooperative would receive (or pay) to terminate open contracts at year-end, thereby taking into account the current unrealized gains or losses. Only unrealized gains and losses on forward contracts on the price of grains are accounted for in the statement of earnings. Gains (losses) on derivative financial instruments, realized or not, are estimated at \$1,034,132 [\$159,115 in 2001] for foreign exchange contracts, at (\$9,637) [\$793,000 in 2001] for forward contracts on the price of pork, at (\$38,026) [\$139,705 in 2001] for forward contracts on the price of grains, at \$3,417,820 [\$4,175,000 in 2001] for the cross-currency interest-rate swap and at (\$710,000) [(\$724,000) in 2001] for interest-rate swaps.

17) INTEREST IN JOINT VENTURES

The Cooperative's consolidated financial statements include its 50% share of its joint ventures' results and balance sheet as follows:

	2002	2001
Consolidated Statement of Earnings		
Sales	\$ 6,352	\$ 1,963
Operating expenses	5,478	1,530
Operating earnings	874	433
Consolidated Balance Sheet		
Current assets	12,733	414
Long-term assets	31,327	11,333
Current liabilities	9,223	501
Long-term liabilities	17,273	7,283
Consolidated Statement of Cash Flows		
Cash flows from:		
Operations	1,481	716
Investment	(77)	2
Financing	(1,046)	(508)

Notes to Consolidated Financial Statements

Year ended October 26, 2002

18) SEGMENTED INFORMATION

The Cooperative has three reportable segments: marketing, the supply of agricultural products and petroleum activities. The marketing segment focuses on the processing and sale of pork and poultry products. The supply segment provides farmers with the goods and services needed for their farming operations. The petroleum segment distributes and sells petroleum products and services that meet the needs of its agricultural, residential, commercial and road transportation customers. Other segments and common costs are grouped under the item "Other Segments."

The various segments' accounting policies are the same as those described in the summary of significant accounting policies. The Cooperative evaluates performance based on operating earnings. It accounts for its interdivisional sales and transfers at current market prices.

	Marketing	Supply	Petroleum	Other segments	Consolidated
2002 REPORTABLE SEGMENTS					
Third-party sales	\$ 1,690,221	\$ 583,449	\$ 206,621	\$ —	\$ 2,480,291
Interdivisional sales	—	3,931	5,435	—	9,366
Total sales	1,690,221	587,380	212,056	—	2,489,657
Financial expenses	10,407	1,441	(191)	(293)	11,364
Depreciation of property, plant and equipment and amortization of other assets	24,711	5,859	2,833	1,118	34,521
Share of results of entities subject to significant influence	—	1,792	37	—	1,829
Operating earnings	20,359	28,306	3,853	(9,810)	42,708
Segment assets	472,424	197,425	58,088	41,851	769,788
Acquisition of property, plant and equipment	46,818	6,102	2,867	453	56,240

	Marketing	Supply	Petroleum	Other segments	Consolidated
2001 REPORTABLE SEGMENTS					
Third-party sales	\$ 1,618,864	\$ 577,878	\$ 234,587	\$ —	\$ 2,431,329
Interdivisional sales	—	3,583	14,865	—	18,448
Total sales	1,618,864	581,461	249,452	—	2,449,777
Financial expenses	12,002	3,529	214	(241)	15,504
Depreciation of property, plant and equipment and amortization of other assets	20,738	5,208	2,861	961	29,768
Share of results of entities subject to significant influence	—	2,059	48	—	2,107
Operating earnings	41,328	24,825	5,466	(8,929)	62,690
Segment assets	427,261	195,305	55,007	43,508	721,081
Acquisition of property, plant and equipment	106,075	12,188	2,444	337	121,044

	2002	2001
SALES BY GEOGRAPHICAL AREAS		
Sales to third parties in Canada	\$1,799,832	\$ 1,792,740
Sales to third parties outside Canada	680,459	638,589
Total sales to third parties	\$2,480,291	\$ 2,431,329

19) SUBSEQUENT EVENTS

Long-term financing

In December 2002, the Cooperative entered into a new long-term financing agreement that resulted in a reduction in the amount drawn on its renewable line of credit. The agreement took effect on December 18, 2002. The 15-year term note, at a fixed rate of 7.754% in the amount of \$28,000,000, is repayable in monthly instalments of \$263,621, including capital and interest, beginning February 1, 2003.

Issuance of shares

In January 2003, the Cooperative's subsidiary, Olymel L.P., issued shares to the Cooperative and to a non-controlling shareholder, for a capital contribution of \$25,000,000. The shares of this non-controlling shareholder, together with those he already owns, represent a 22.57% interest in the subsidiary. This transaction will generate a gain on dilution of approximately \$6,450,000 for the Cooperative.

20) COMPARATIVE FIGURES

Some of the 2001 figures have been reclassified to conform to the presentation adopted in 2002.

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Operations										
[thousands of dollars]										
Sales	\$ 2,480,291	\$ 2,431,329	\$ 2,003,739	\$ 1,778,156	\$ 1,807,275	\$ 1,815,554	\$ 1,747,512	\$ 1,486,165	\$ 1,471,480	\$ 1,519,645
Financial expenses	11,364	15,504	11,855	12,667	14,890	16,047	16,449	17,213	14,926	16,737
Depreciation and amortization	34,521	29,768	26,148	26,238	25,115	23,073	24,217	23,393	22,714	25,615
Operating earnings from continuing operations	42,708	62,690	25,786	42,085	29,446	18,404	16,728	9,421	6,946	6,607
Patronage refunds	17,200	16,200	7,000	15,250	12,750	7,500	5,100	3,000	1,250	—
Income taxes	8,309	8,617	5,848	8,890	7,076	6,191	6,819	5,328	5,965	1,686
Discontinued operations	(140)	(161)	(6,593)	(1,089)	2,811	2,005	2,476	3,233	3,121	(1,378)
Net earnings after distributions	17,059	37,712	6,345	16,856	12,431	6,718	7,285	4,326	2,852	3,543
Financial position										
[thousands of dollars]										
Working capital	\$ 123,742	\$ 122,390	\$ 91,967	\$ 77,256	\$ 99,290	\$ 105,646	\$ 100,280	\$ 98,164	\$ 93,215	\$ 77,109
Property, plant and equipment, book value	309,477	287,269	194,220	190,560	178,966	187,099	177,590	171,282	148,181	179,126
Total assets	769,788	721,081	590,981	539,222	524,166	539,459	515,709	487,561	443,529	474,991
Convertible debentures, preferred shares and equity	283,163	258,461	213,885	209,705	186,079	169,647	160,085	158,777	153,178	150,480
Financial ratios										
Working capital ratio	1.5	1.5	1.4	1.4	1.6	1.6	1.6	1.7	1.9	1.5
Interest coverage	4.7	5.0	2.4	4.2	3.2	2.3	2.2	1.7	1.7	1.3
Debt/Equity ratio*	43:57	43:57	45:55	36:64	44:56	55:45	53:47	53:47	51:49	57:43
Operating earnings/Sales	1.7%	2.6%	0.9%	2.3%	1.8%	1.1%	1.1%	0.8%	0.7%	0.3%
Cooperative's equity/ Convertible debentures, preferred shares and equity	59.9%	59.0%	53.7%	53.7%	51.4%	50.5%	49.3%	45.1%	43.9%	42.8%
Convertible debentures, preferred shares and equity/ Total assets	36.8%	35.8%	36.2%	38.9%	35.5%	31.4%	31.0%	32.6%	34.5%	31.7%
Number of employees	10,096	9,340	8,041	7,996	7,448	6,838	6,185	5,676	5,377	5,132

* The equity figure in the debt/equity ratio includes the convertible debentures and preferred shares.

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