

FINANCIAL STATEMENTS OF THE AGENCIES AND ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC

2008-2009

Publication prepared under the authority of
the Minister of Finance

**Financial statements of the agencies and enterprises of the Gouvernement du Québec
2008-2009**

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The Ministère des Finances presents this publication gathering the financial statements of the agencies and enterprises of the Gouvernement du Québec.

Although these financial statements are usually tabled in the National Assembly, we are grouping them together in this volume for easier consultation.

Québec, May 2011

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(*) Not available at time of publication

(**) Not audited

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
(R.S.Q., c. A-7.001)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Contribution:		
Energy distributors' contribution	\$36 274 852	\$24 308 452
Gouvernement du Québec Green Fund	1 212 620	29 546
Federal programs	1 622 546	3 200 958
Other partners	428 250	111 341
Other	156 445	58 019
	<u>39 694 713</u>	<u>27 708 316</u>
EXPENSES		
Subsidies awarded (Note 4)	26 840 824	10 158 346
Salaries and fringe benefits	5 303 850	3 433 158
Professional fees	5 030 289	1 861 531
Advertising and communication	8 118 248	2 064 975
Telecommunication and messaging	465 146	414 730
Travel and entertainment	320 071	339 329
Leasing	399 142	180 035
Supplies	59 416	59 525
Maintenance and repairs	13 285	50 695
Training	52 642	27 650
Change in provision for recovery-risk loans	2 313	130 925
Financial expenses	12 634	84 199
Amortization of capital assets	91 610	38 072
	<u>46 709 470</u>	<u>18 843 170</u>
DEFICIENCY (EXCESS) OF REVENUES OVER EXPENSES	<u><u>\$(7 014 757)</u></u>	<u><u>\$8 865 146</u></u>

The notes are an integral part of these financial statements.

CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
OPENING BALANCE	\$10 119 846	\$1 254 700
Deficiency (excess) of revenues over expenses	<u>(7 014 757)</u>	<u>8 865 146</u>
CLOSING BALANCE	<u><u>\$3 105 089</u></u>	<u><u>\$10 119 846</u></u>

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUEBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Amount receivable from the Consolidated Revenue Fund		\$22 884 253
Cash in hand	\$23 328 955	
Accounts receivable (Note 5)	2 510 684	1 369 843
Loans cashable in the short term (Note 6)	<u>16 780</u>	<u>53 001</u>
	25 856 419	24 307 097
Loans (Note 6)	24 802	9 375
Intangible assets (Note 7)	<u>425 437</u>	<u>276 005</u>
	<u>\$26 306 658</u>	<u>\$24 592 477</u>
LIABILITIES		
Current liabilities		
Amount owing to the Financing Fund (Note 8)		\$10 058 238
Accounts payable and accrued liabilities (Note 9)	<u>\$22 440 164</u>	<u>3 643 604</u>
	22 440 164	13 701 842
Provision for sick leave (Note 10)	<u>694 428</u>	<u>703 812</u>
	<u>23 134 592</u>	<u>14 405 654</u>
EQUITY		
Gouvernement du Québec contributed surplus	66 977	66 977
Appropriated cumulated surplus (Note 11)	<u>3 105 089</u>	<u>10 119 846</u>
	<u>3 172 066</u>	<u>10 186 823</u>
	<u>\$26 306 658</u>	<u>\$24 592 477</u>
COMMITMENTS (Note 12)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,

Johanne Giguère
Vice-President

Richard Lamarche
Director

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
(Deficiency) Excess of revenues over expenses	\$(7 014 757)	\$8 865 146
Items not affecting cash flows:		
Change in provision for recovery-risk loans	2 313	130 925
Amortization of capital assets	<u>91 610</u>	<u>38 072</u>
	... (6 920 834) ...	... 9 034 143 ...
Change in non-cash items related to operations:		
Accounts receivable	(1 140 841)	2 999 994
Accounts payable and accrued liabilities	18 796 560	305 056
Deferrals		(149 667)
Provision for sick leave	<u>(9 384)</u>	<u>(48 124)</u>
	... 17 646 335 ...	... 3 107 259 ...
Cash flows related to operating activities	<u>10 725 501</u>	<u>12 141 402</u>
INVESTMENT ACTIVITIES		
Loan repayment	18 481	46 301
Acquisition of capital assets	<u>(241 042)</u>	<u>(262 733)</u>
Cash flows related to investment activities	<u>(222 561)</u>	<u>(216 432)</u>
FINANCING ACTIVITIES		
Increase in amount owing to the Financing Fund		10 058 238
Repayment of amount owing to the Financing Fund	<u>(10 058 238)</u>	
Cash flows related to financing activities	<u>(10 058 238)</u>	<u>10 058 238</u>
CHANGE IN CASH AND CASH EQUIVALENTS	444 702	21 983 208
OPENING CASH AND CASH EQUIVALENTS	<u>22 884 253</u>	<u>901 045</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$23 328 955</u></u>	<u><u>\$22 884 253</u></u>
ADDITIONAL INFORMATION		
Cancellation of long-term debt in exchange for capital assets		\$2 818
Interest paid	\$64 001 \$	23 763

The notes are an integral part of these financial statements.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Agence de l'efficacité énergétique (AEE), a legal person established under the *Act respecting the Agence de l'efficacité énergétique* (R.S.Q., c. A-7.001), is mandated, in keeping with the principle of sustainable development, to promote energy efficiency and the development of new energy technologies for all forms of energy, in all sectors of activity and for the benefit of all the regions of Québec. It also develops overall three-year energy efficiency plans and new technologies and ensures their implementation and follow-up.

Under section 985 of the Québec *Taxation Act* (R.S.Q., c. I-3) and section 149 (1) (d) of the Canadian *Income Tax Act* (RSC, 1985, 5th Suppl.), the AEE does not pay income tax.

The AEE finances its activities from energy distributors' contributions, whose amounts are determined by the Régie de l'énergie. The AEE can also set a fee rate for the services it offers in the context of its activities. Finally, it may receive amounts from a third party.

2. ACCOUNTING POLICIES

To prepare its financial statements, the AEE gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets, the provision for risk-recovery loans and the provision for sick leave. Real results may differ from these estimates.

Contributions

Gouvernement du Québec and Government of Canada

Gouvernement du Québec and Government of Canada contributions are reported as revenue for the fiscal year in which they were granted.

Energy distributors' contributions

Contributions received or receivable from distributors are assigned to the fiscal year shown on the notices of payment produced by the Régie de l'énergie.

Partners

Contributions received or receivable from partners and assigned to specific projects are deferred and transferred to revenue as the related expenses are incurred.

Subsidies and loans

Subsidies are posted to expenses when authorized and, where applicable, when the recipient has met the eligibility criteria. However, recoverable subsidies are recorded as loans up to the amount that is reasonably certain to be recovered.

Provision for recovery-risk loans

When loan recovery is deemed uncertain, book values are calculated at estimated realizable value. When realization amounts and times cannot be estimated reasonably and reliably, management uses its judgement to estimate realizable value.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method and the following rates:

Rolling stock	5 years
Furniture and equipment	5 years
Computer equipment	3 years
Specialized equipment	10 years
Computer systems	5 years

Amortization of capital assets

When the situation indicates that a capital asset no longer contributes to the AEE's capacity to provide services or if the value of the capital asset's future economic benefits is less than its book value, its cost is reduced to reflect this decline. Net capital asset-related losses are posted to results. No recovery is reported.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the AEE lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits that is, based on employees' accumulation and use of sick days.

Cash and cash equivalents

It is the AEE's policy to present the amount receivable from the Gouvernement du Québec's Consolidated Revenue Fund as cash and cash equivalents, since the amounts from this Fund enable it to meet its short-term cash commitments.

3. CHANGE IN ACCOUNTING POLICIES

Change in accounting framework

On April 1, 2008, the AEE changed accounting frameworks from the CICA Handbook for the private sector to the CICA Public Sector Accounting Handbook. The effects of the initial application of these new standards are reported prospectively. Some 2007-2008 figures were reclassified for consistency with the presentation adopted in 2008-2009. This change does not affect the AEE's results or cumulated surplus.

The accounting policies affected by this change in accounting framework are described below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer systems development and application software are now presented under "Capital assets" rather than "Intangible assets". Computer equipment and system software related to computer systems development are now presented under "Computer systems."

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. CHANGE IN ACCOUNTING POLICIES (cont'd)**Change in accounting framework (cont'd)**Revenues and expenses

The revenues and expenses presented in the financial statements are all gross values. In 2007-2008, the net values of certain expenses incurred by the AEE and repaid by a third party (federal programs) were presented in the statement of operations. The gross values of these expenses are now reported and the corresponding revenues are presented separately as contributions.

4. SUBSIDIES AWARDED

	<u>2009</u>	<u>2008</u>
Private-sector enterprises	\$8 056 691	\$4 097 176
Municipalities and municipal housing bureaus	28 095	251 443
Homes	96 496	7 777
Health, educational and social services institutions	1 440 629	2 729 999
Gouvernement du Québec enterprises	13 151 486	
Québec public and parapublic sector agencies	36 642	132 201
Private-sector non-profit organizations	4 025 785	2 939 750
Individuals	<u>5 000</u>	
	<u>\$26 840 824</u>	<u>\$10 158 346</u>

5. ACCOUNTS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Receivable:		
Energy distributor partners (contribution)	\$504 296	\$656 141
Gouvernement du Québec Green Fund partners	883 491	29 546
Office of Energy Efficiency	1 090 118	682 506
Other	<u>32 779</u>	<u>1 650</u>
	<u>\$2 510 684</u>	<u>\$1 369 843</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
6. LOANS

	2009	2008
Interest-free loans repayable from 2009 to 2011	\$119 365	\$150 615
Interest-free loans repayable in royalties	35 000	35 000
Interest-free loans repayable as per agreements	121 162	140 566
	<u>275 527</u>	<u>326 181</u>
Provision for recovery-risk loans: ¹		
Interest-free loans repayable from 2009 to 2011	(108 114)	(121 239)
Interest-free loans repayable in royalties	(35 000)	(35 000)
Interest-free loans repayable as per agreements	(90 831)	(107 566)
	<u>(233 945)</u>	<u>(263 805)</u>
Net loans	41 582	62 376
Minus: Loans redeemable in the short term	16 780	53 001
	<u>\$24 802</u>	<u>\$9 375</u>

1 The change in the provision for risk-recovery loans breaks down as:

	2009	2008
Opening balance	\$263 805	\$132 880
Provision for the year	2 313	130 925
Write-off for the year	(32 173)	
Closing balance	<u>\$233 945</u>	<u>\$263 805</u>

7. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net amount	Net amount
Rolling stock	\$64 824	\$40 638	\$24 186	\$30 936
Furniture and equipment	144 813	44 549	100 264	50 520
Computer equipment	262 711	144 694	118 017	60 647
Specialized equipment	43 845	21 557	22 288	26 672
Computer systems	187 130	26 448	160 682	107 230
	<u>\$703 323</u>	<u>\$277 886</u>	<u>\$425 437</u>	<u>\$276 005</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. CREDIT FACILITIES**

In April 2008, the AEE repaid the balance of the \$10 058 238 Financing Fund borrowing. It contracted no other borrowing during the year. The AEE also has a \$1 000 000 credit line on its bank overdraft bearing interest at the National Bank of Canada prime rate—2.25% the date the balance sheet was drawn up—and terminating no later than March 31, 2012. At March 31, 2009, the credit line was unused.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Subsidies awarded	\$15 430 288	\$1 183 109
Accounts payable	6 300 279	1 916 269
Salaries and fringe benefits	303 478	193 267
Vacation time	406 119	350 959
	<u>\$22 440 164</u>	<u>\$3 643 604</u>

10. FUTURE FRINGE BENEFITS**Pension plans**

AEE staff participates in the Government and Public Employees Retirement Plan (RREGOP), Retirement Plan for Senior Officials (RPSO), Civil Service Superannuation Plan (CSSP) and Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2009, the AEE's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPMP and RPSO, 10.54%. The CSSP contribution rate remained 7.25%.

The AEE's contributions charged to the year-end statement totalled \$261 060 in 2009 (2008: \$164 979). Its liability towards these Government plans is restricted to its employer contributions.

Obligations related to sick leave

During the fiscal year, the AEE changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation reduced the value of the obligation by \$66 806 at March 31, 2009. The effect of this change was posted prospectively to results.

	2009	2008
Opening balance	\$703 812	\$751 936
Annual expenses	66 141	108 662
Benefits paid during the year	<u>(75 525)</u>	<u>(156 786)</u>
Closing balance	<u>\$694 428</u>	<u>\$703 812</u>

Description

The AEE has a sick leave accumulation program, which results in long-term obligations whose costs the AEE bears in their entirety.

Currently, this program is not subject to capitalization with a view to payment.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

10. FUTURE FRINGE BENEFITS (cont'd)

Obligations related to sick leave (cont'd)

Description (cont'd)

Obligations under the sick leave accumulation program increase as AEE employees render services to it. The value of these obligations is established using a method that breaks down the program's cost over the employee's working career.

Accumulation of sick days

Sick days are generally allocated at a rate of 1 day/month for regular employees (12 days/year). For part-time employees, employees working short time or employees with flexible working arrangements, the sick leave credited each month may be a day or a fraction thereof.

Each unused sick day may be transferred and accumulated, should a specific event arise in future (retirement, employment termination, death).

Some non-unionizable job classes (such as managers) do not accumulate sick days. However, they keep those accumulated in the past until they retire, stop working or die.

Use of sick days

In cases of employment termination or death, the sick days accumulated are repaid in a single lump sum (at only at 50%), subject to a 66-day maximum.

Upon retirement, individuals can have their accumulated sick days repaid (still at 50%, subject to a 66-day maximum), or use them for pre-retirement purposes, that is, maintain the employer/employee relationship until their bank of accumulated sick days is depleted.

Valuation and subsequent estimations

The provision for sick leave resulting from the accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

	RREGOP*			Other
	25-34	35-44	45 or over	All
Indexation rate	3.85%	3.85%	3.10%	4.10%
Actualization rate	5.40%	5.70%	3.30%	4.00%
Average remaining duration of activity for active wage-earners	29 years	20 years	6 years	8 years

* For the RREGOP, the AEE has created sub-categories by age.

Provision for vacation time

The provision for vacation time, which totals \$406 119 (2008: \$350 959), is included under "Accounts payable and accrued liabilities." Actualization calculations for provisions for vacation time are not deemed necessary since the AEE deems that vacation time accumulated will be taken the following fiscal year.

11. APPROPRIATED CUMULATED SURPLUS

The table below shows the appropriated cumulated surplus at March 31, 2009 by partner contributions. As stipulated in the Act, for the distributors' share, the AEE presents the results by energy source.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
11. APPROPRIATED CUMULATED SURPLUS (cont'd)

	2009					
	SURPLUS ENERGY SOURCE					
	Fuels and combustibles					
	Electricity	Natural gas	Heavy fuel oil	Heating oil	Gasoline	Diesel
Revenues						
Contribution:						
Energy distributors	\$29 557 689	\$1 602 126	\$78 791	\$2 157 760	\$2 471 142	\$360 426
Gouvernement du Québec Green Fund						
Federal programs						
Other partners						
Other	118 100	7 559	268	7 362	8 417	1 228
Total revenues	29 675 789	1 609 685	79 059	2 165 122	2 479 559	361 654
Expenses by program						
Overall energy efficiency plan planning and design	1 588 180	203 063	32 848	204 315	401 142	107 349
Communications/awareness	2 254 653	302 401	18 263	559 127	1 561 532	80 170
AEE administration	1 713 302	181 485	8 981	224 334	394 940	61 187
Residential	28 648 850	1 868 452		1 364 477		
Business	57 000	22 648	3 996	69 328	20 500	11 138
Regulations	37 688					
Transportation					427 232	71 206
Industrial	27 945	26 603	925	24 502	241	1 873
New technologies	271 702	84 551	27 840	55 553	60 963	248 324
Total expenses	34 599 320	2 689 203	92 853	2 501 636	2 866 550	581 247
2008-2009 surplus	(4 923 531)	(1 079 518)	(13 794)	(336 514)	(386 991)	(219 593)
Opening surplus²	6 649 070	1 025 657	1 052 581	58 584	100 290	64 572
Closing cumulated surplus	\$1 725 539	\$(53 861)	\$1 038 787	\$(277 930)	\$(286 701)	\$(155 021)

1 The column "Other" presents primarily the results for activities related to timber, building regulations and AEE relocation expenses.

2 The breakdown of the opening surplus was modified to reflect Régie de l'énergie data and recommendations for breaking down results by energy source for 2007-2008.

2009						2008
Propane	Total share	Gouvernement du Québec Green Fund	Federal Government	Other ¹	Total	Total
\$46 918	\$36 274 852				\$36 274 852	\$24 308 452
		\$1 212 620			1 212 620	29 546
			\$1 622 546		1 622 546	3 200 958
				\$428 250	428 250	111 341
166	143 100			13 345	156 445	58 019
47 084	36 417 952	1 212 620	1 622 546	441 595	39 694 713	27 708 316
25 611	2 562 508			16 147	2 578 655	1 268 940
18 872	4 795 018				4 795 018	991 174
12 143	2 596 372	136 861		19 039	2 752 272	2 004 262
36 135	31 917 914			62 765	31 980 679	9 898 883
13 231	197 841	175 335	1 622 546		1 995 722	3 398 113
	37 688			331 937	369 625	562 898
	498 438	11 500			509 938	181 907
1 135	83 224	774 721			857 945	166 529
6 480	755 413	114 203			869 616	370 464
113 607	43 444 416	1 212 620	1 622 546	429 888	46 709 470	18 843 170
(66 523)	(7 026 464)			11 707	(7 014 757)	8 865 146
41 017	8 991 771			1 128 075	10 119 846	1 254 700
<u>\$(25 506)</u>	<u>\$1 965 307</u>			<u>\$1 139 782</u>	<u>\$3 105 089</u>	<u>\$10 119 846</u>

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. COMMITMENTS

The AEE is committed, under facility and equipment leasing contracts, to total future payments (minimum) of \$465 917. Minimum payments under these contracts over the next five fiscal years are: 2010: \$296 173, 2011: \$154 746, 2012: \$10 056, 2013: \$3 346 and 2014: \$1 596.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the AEE is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The AEE did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

AGENCE DE L'EFFICACITÉ ÉNERGÉTIQUE

MANAGEMENT'S REPORT

The financial statements of the Agence de l'efficacité énergétique (AEE) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. The AEE recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the AEE's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Luce Asselin
President-Chief Executive Officer

Laurette Lussier
Director, Management Services

Québec, June 8, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Agence de l'efficacité énergétique as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of AEE management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the AEE's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 8, 2009

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
(R.S.Q., c. A-7.002)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Honoraria – Related-party clients (Note 11)	\$13 650 254	\$9 864 177
Agreement with Secrétariat du Conseil du trésor	1 500 000	1 500 000
Transfer of Government assistance		13 260
	<u>15 150 254</u>	<u>11 377 437</u>
EXPENSES		
Salaries and fringe benefits	4 780 615	4 029 361
Professional and administrative services and outside consultants	8 792 902	5 966 697
Rent	495 299	373 224
Travel and promotion	210 299	163 085
Communication	114 764	120 663
Insurance	34 873	32 950
Furnishings and supplies	127 117	154 451
Amortization of capital assets	205 671	179 345
Amortization of intangible assets	22 635	14 522
Loss on depreciation of capital assets		6 630
Loss on transfer of capital assets		1 087
Interest on long-term debt	13 507	14 803
Interest and bank charges	10 603	7 163
	<u>14 808 285</u>	<u>11 063 981</u>
EXCESS OF REVENUES OVER EXPENSES	341 969	313 456
OPENING CUMULATED SURPLUS	<u>933 031</u>	<u>619 575</u>
CLOSING CUMULATED SURPLUS (Note 10)	<u><u>\$1 275 000</u></u>	<u><u>\$933 031</u></u>

The notes are an integral part of these financial statements.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
BALANCE SHEET
 as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$824 020	\$251 062
Accounts receivable (Note 5)	2 811 694	3 069 855
Work in progress (Note 5)	1 280 612	1 693 933
Prepaid expenses	29 635	32 340
	<u>4 945 961</u>	<u>5 047 190</u>
Capital assets (Note 6)	<u>613 154</u>	<u>560 098</u>
	<u>\$5 559 115</u>	<u>\$5 607 288</u>
LIABILITIES		
Current liabilities		
Financing Fund borrowing (Note 7)		\$825 000
Accounts payable and accrued liabilities	\$ 534 872	3 184 801
Short-term portion of the long-term debt (Note 8)	120 032	97 114
Provision for vacation time (Note 9)	193 753	158 124
	<u>3 848 657</u>	<u>4 265 039</u>
Provision for sick leave (Note 9)	265 027	223 628
Long-term debt (Note 8)	<u>170 431</u>	<u>185 590</u>
	4 284 115	4 674 257
CUMULATED SURPLUS	<u>1 275 000</u>	<u>933 031</u>
	<u>\$5 559 115</u>	<u>\$5 607 288</u>

The notes are an integral part of these financial statements.

COMMITMENTS (Note 12)

On behalf of the Board of Directors,
 Denys Jean, Vice-President
 Marcel Boyer, Director

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$341 969	\$313 456
Items not affecting cash flows:		
Transfer of Government assistance		(13 260)
Amortization of capital assets	205 671	179 345
Amortization of intangible assets	22 635	14 522
Loss on depreciation of capital assets		6 630
Loss on transfer of capital assets		1 087
	<u>570 275</u>	<u>501 780</u>
Change in assets and liabilities related to operations:		
Accounts receivable	258 161	(2 017 435)
Work in progress	413 321	(1 208 136)
Prepaid expenses	2 705	9 554
Accounts payable and accrued liabilities	350 071	1 767 891
Amount owing to the Gouvernement du Québec		(258 213)
Provision for vacation time	35 629	28 553
Provision for sick leave	41 399	66 467
	<u>1 101 286</u>	<u>(1 611 319)</u>
Cash flows related to operating activities	<u>1 671 561</u>	<u>(1 109 539)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(270 095)	(149 489)
Acquisition of intangible assets	(11 267)	(45 245)
Proceeds from transfer of capital assets		2 443
Cash flows related to investment activities	<u>(281 362)</u>	<u>(192 291)</u>
FINANCING ACTIVITIES		
Financing Fund borrowing	1 605 000	1 425 000
Repayment of Financing Fund borrowing	(2 430 000)	(600 000)
Long-term debt	115 329	
Long-term debt repayment	(107 570)	(92 085)
Cash flows related to financing activities	<u>(817 241)</u>	<u>732 915</u>
INCREASE (DECREASE) IN CASH ON HAND	572 958	(568 915)
OPENING CASH ON HAND	<u>251 062</u>	<u>819 977</u>
CLOSING CASH ON HAND	<u>\$824 020</u>	<u>\$251 062</u>

Interest paid over the fiscal year totals \$17 362.

The notes are an integral part of these financial statements.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person established under section 1 of the *Act respecting the Agence des partenariats public-privé du Québec* (R.S.Q., c. A-7.002), which came into effect on April 18, 2005, the Agence des partenariats public-privé du Québec (agency) is mandated to contribute, through its advice and expertise, to renewing public infrastructures and enhancing services to citizens under public-private partnership projects.

Under section 2 of its incorporating legislation, the agency is a mandatary of the State and, as such, does not pay Québec or Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

FINANCIAL INSTRUMENTS

Initial measurement

Financial instruments are recognized at their fair value on the date of the transaction. Transaction costs are reported under net results.

CATEGORY OF FINANCIAL INSTRUMENT AND SUBSEQUENT MEASUREMENT

Assets and liabilities held for transaction purposes

Assets and liabilities held for transaction purposes are measured at their fair value. The gains and losses resulting from their reassessment at fair value are reported under net results, if applicable. Interest income is included under “Honoraria – Related-party clients” and interest charges are included under “Interest on long-term debt”.

The agency has classified cash and cash equivalents as assets and liabilities held for transaction purposes and irrevocably designated the following short-term financial instruments: accounts receivable, accounts payable and accrued liabilities, provision for vacation time.

Other liabilities

Other financial liabilities include all non-derivative financial liabilities not classified in the “held for transaction purposes” category. These liabilities are subsequently measured at their amortized cost using the effective interest rate method.

The agency classified the Financial Fund borrowing and the long-term debt in this category.

Fair value

Fair value is the amount of the consideration on which competent parties acting freely under fully competitive conditions agree on. It is determined using measurement methods such as actualization of future cash flows at current interest rates.

Comprehensive income

The agency has not classified any financial instrument as a financial asset available for sale. Consequently, comprehensive income does not differ from excess revenues over expenses.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

CATEGORY OF FINANCIAL INSTRUMENT AND SUBSEQUENT MEASUREMENT (cont'd)

Revenue reporting

Revenues from client honoraria are recorded using the percentage-of-completion method.

In re-invoicing outside consultants' fees, the agency posts revenues equivalent to the charges invoiced by the latter. Direct honoraria invoiced by the agency are evaluated based on hours worked and disbursements.

Other revenues are recorded when there is convincing evidence that an agreement exists, that the service has been rendered, that its price has been or can be determined, and that recovery is reasonably certain.

Work in progress

Work in progress represents the surplus of costs incurred and a certain profit margin, where applicable, for current contracts, over amounts invoiced.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method and the following durations:

Leasehold improvements	5 years
Furniture and office equipment	5 years
Computer equipment	3 years

The agency regularly examines its capital assets' book value, comparing it to the unrealized future cash flows they are expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized over their expected service life, i.e. 3 years, using the straight-line method.

They undergo a depreciation test when events or changes in the situation indicate that their book value may not be recoverable.

Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Provision for vacation time and sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the agency lacks sufficient information to apply the accounting procedure for defined-benefit plans.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. CHANGES TO ACCOUNTING POLICIES

Capital disclosures

The agency adopted the Canadian Institute of Chartered Accountants (CICA) Handbook's recommendations for Section 1535, "Capital Disclosures". This section requires disclosure of information about an entity's objectives, policies and processes for managing capital and capital-related requirements under outside rules. The required information is supplied in Note 14.

Financial instruments

The agency adopted the recommendations of Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

Section 3862 requires disclosure of:

- a) the significance of financial instruments for an entity's financial position and performance;
- b) the nature and extent of the risks resulting from the financial instruments to which the entity is exposed over the period and the closing date and how it manages these risks.

Section 3863 defines the standards for presenting financial instruments and non-financial derivatives.

Adoption of these sections did not affect the agency's results but added information.

Obligations related to sick leave

During the fiscal year, the agency changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation increased the value of the obligation by \$7 395 at March 31, 2009. The effect of this change was posted prospectively to results.

4. FUTURE CHANGES TO ACCOUNTING POLICIES

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008. Management deems that applying the new standards will have no significant impact on its financial statements.

5. ACCOUNTS RECEIVABLE AND WORK IN PROGRESS

	2009		
	Accounts receivable	Work in progress	Total
Ministère de la Santé et des Services sociaux	\$1 955 883	\$915 353	\$2 871 236
Ministère de la Culture, des Communications et de la Condition féminine	337 018	253 823	590 841
Ministère de la Sécurité publique	2 325		2 325
Ministère de l'Éducation, du Loisir et du Sport	205 013	104 399	309 412
Ministère des Transports	161 455	7 037	168 492
	2 661 694	1 280 612	3 942 306
Agreement with the Secrétariat du Conseil du trésor	150 000		150 000
	\$2 811 694	\$1 280 612	\$4 092 306

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. ACCOUNTS RECEIVABLE AND WORK IN PROGRESS (cont'd)

	2008	
	Accounts receivable	Work in progress
		Total
Ministère de la Santé et des Services sociaux	\$1 078 751	\$2 574 282
Ministère de la Culture, des Communications et de la Condition féminine	1 390 493	1 501 042
Ministère de la Justice	1 399	1 399
Ministère des Transports	442 811	530 664
	2 913 454	4 607 387
Agreement with the Secrétariat du Conseil du trésor	150 000	150 000
Other	6 401	6 401
	<u>\$3 069 855</u>	<u>\$4 763 788</u>

6. CAPITAL ASSETS

	2009	
	Cost	Accumulated depreciation
		Net value
Capital assets		
Leasehold improvements	\$613 506	\$323 730
Office furniture and equipment	200 885	115 878
Computer equipment	292 415	141 235
	1 106 806	580 843
Intangible assets		
Software	76 114	32 311
	<u>\$1 182 920</u>	<u>\$613 154</u>

	2008	
	Cost	Accumulated depreciation
		Net value
Capital assets		
Leasehold improvements	\$465 672	\$282 785
Office furniture and equipment	172 905	125 072
Computer equipment	198 134	108 562
	836 711	516 419
Intangible assets		
Software	64 847	43 679
	<u>\$901 558</u>	<u>\$560 098</u>

7. FINANCING FUND BORROWING

Under orders-in-council 619-2008 and 620-2008, the Gouvernement du Québec authorized the agency to contract a credit line of \$3 000 000. To contract a loan that brings its total borrowings to more than \$1 000 000, the agency requires the Government's authorization. This credit line expires on June 30, 2011 and bears interest at the average bank acceptance rate plus a premium of 0.30%. At March 31, 2009, the balance owing on this credit line was zero (\$825 000 in 2008).

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

8. LONG-TERM DEBT

Occupancy agreements with the Société immobilière du Québec

	2009	2008
At a fixed rate of 4.69%, repayable in monthly instalments of \$3 471, maturing October 31, 2010	\$63 444	\$101 158
At a fixed rate of 4.70%, repayable in monthly instalments of \$3 278, maturing March 31, 2011	74 957	109 879
At a fixed rate of 4.70%, repayable in monthly instalments of \$1 377, maturing October 31, 2011	40 128	54 402
At a fixed rate of 4.28%, repayable in monthly instalments of \$2 131, maturing September 30, 2013	104 873	
At a fixed rate of 4.48%, repayable in monthly instalments of \$898, maturing November 30, 2009	7 061	17 265
	<u>290 463</u>	<u>282 704</u>
Short-term portion of the long-term debt	<u>120 032</u>	<u>97 114</u>
	<u>\$170 431</u>	<u>\$185 590</u>

Capital payments for the next five fiscal years are:

2010	\$120 032
2011	100 415
2012	32 928
2013	24 460
2014	<u>12 628</u>
	<u>\$290 463</u>

9. FUTURE FRINGE BENEFITS

Pension plans

Agency staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement or death.

The agency's contributions charged to the year-end statement totalled \$234 553 (2008: \$167 889). Its liability towards these Government plans is restricted to its employer contributions.

Provision for vacation time and sick leave

	2009		
	Vacation time	Sick leave *	Total
Balance at March 31, 2008	\$158 124	\$223 628	\$381 752
Annual expenses	361 129	76 929	438 058
Benefits paid during the year	<u>(325 500)</u>	<u>(35 530)</u>	<u>(361 030)</u>
Balance at March 31, 2009	<u>\$193 753</u>	<u>\$265 027</u>	<u>\$458 780</u>

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. FUTURE FRINGE BENEFITS (cont'd)
Provision for vacation time and sick leave (cont'd)

	2008		
	Vacation time	Sick leave	Total
Balance at March 31, 2007	\$129 571	\$157 161	\$286 732
Annual expenses	322 023	85 353	407 375
Benefits paid during the year	(293 470)	(18 886)	(312 355)
Balance at March 31, 2008	<u>\$158 124</u>	<u>\$223 628</u>	<u>\$381 752</u>

* This provision is capitalized using the following economic estimates and assumptions:

Indexation rate	3.10% to 4.35%
Discount rate	0.80% to 5.61%
Average remaining service period of active employees	1-32 years

10. CUMULATIVE SURPLUS

Under section 44 of its incorporating legislation, funds received by the agency must be used to pay its obligations. The agency keeps any surpluses, unless the Government decides otherwise.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the agency received all of its revenues from related parties and committed to rental expenses of \$450 024 payable to the Société immobilière du Québec. All of these transactions were measured at exchange value. The agency is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The agency did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. COMMITMENTS

The agency rents office space under occupancy agreements with the Société immobilière du Québec expiring in March and October 2011. Minimum future rental payments total \$962 507 and represent the following instalments for the next three fiscal years: 2010 and 2011: \$454 520 and 2012: \$53 467.

Under leasing contracts, the agency committed to leasing office equipment. These contracts end in October 2011 and March 2013. Minimum payments total \$45 109 and represent the following instalments for the next four fiscal years: 2010 and 2011: \$12 752; 2012: \$11 017 and 2013: \$8 588.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT
Fair value

The fair value of short-term financial instruments is equivalent to their cost, given that they mature in the short term.

The fair value of the long-term debt is equivalent to its book value, given that market conditions on March 31, 2009 were similar to those prevailing when it was issued.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Liquidity risk

The liquidity risk is the risk that the agency will be unable to meet its financial obligations when they come due. The agency monitors its cash balance and the cash flows resulting from its operations to ensure that it is able to meet its commitments.

Financial liabilities are payable within a year, with the exception of the long-term debt, whose due dates are disclosed in Note 8.

Credit risk

The agency's credit risk exposure corresponds to the financial assets' book value. The agency has no overdue accounts and expects to recover all of its accounts receivable.

Interest rate risk

Interest rate volatility affects the fair value of financial assets and liabilities (market risk linked to interest rates).

The long-term debt bears interest at fixed rates. Given that the agency foresees repaying these borrowings in full when they are due, the risks to which it is exposed in relation to the long-term debt are minimal.

14. CAPITAL DISCLOSURES

The agency defines its capital as its cumulated surplus and long-term debt, which break down as follows:

	2009	2008
Cumulated surplus	\$1 275 000	\$933 031
Long-term debt	\$290 463	\$282 704

Capital

Under its incorporating act, the agency requires the Government's authorization to borrow, and acquire or dispose of goods. The agency is not subject to any other capital-related requirement linked to an outside source.

Throughout the fiscal year, the agency met all of the capital-related requirements governing it.

The agency manages its capital through careful management of its revenues, expenses, assets, liabilities, investments and other financial transactions so as to ensure that it performs the requirements of its incorporating act effectively.

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Agence des partenariats public-privé du Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The agency recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the agency's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Jacques Dutil
Director of Administration

Pierre Lefebvre
President-Chief Executive Officer

Québec, May 22, 2009

AGENCE DES PARTENARIATS PUBLIC-PRIVÉ DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly,

I have audited the balance sheet of the des partenariats public-privé du Québec as at March 31, 2009 and the statements of operations, and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of agency management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the agency as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 22, 2009

AGENCE MÉTROPOLITAINE DE TRANSPORT
(R.S.Q., c. A-7.02)

CUMULATIVE OPERATIONS
for the years ended December 31,
(in thousands of dollars)

	2008	2007 (Restated)
REVENUES		
Government remittances:		
– for fuel tax	51 133	50 996
– for licence fees	52 508	51 225
Revenue from commuter trains (Note 6)	44 457	42 299
Municipal contributions to the cost of commuter rail systems (Note 6)	36 194	33 384
Gouvernement du Québec contributions to the <i>Politique de développement durable</i>	1 469	1 415
Gouvernement du Québec assistance for adapted transportation program	450	450
Revenue from metropolitan expresses	2 373	2 295
Municipal contributions to metropolitan expresses	29	374
Contributions to metropolitan transit facilities	2 979	1 797
Statements of offence and other	5 872	5 530
Payment of deferred Gouvernement du Québec and other subsidies (Note 23)	17 338	16 869
Municipal contributions (Note 7)	28 945	24 414
Interest income	43 152	40 603
	<u>286 899</u>	<u>271 651</u>
EXPENSES		
Metropolitan assistance and related expenditures (Note 9)	56 049	56 879
Commuter trains (Note 6)	93 447	87 436
Metropolitan transit facilities	15 049	13 496
Operating expenses	8 154	7 414
Development assistance	2 751	2 081
Assistance for reduced-rate TRAM tickets and related expenses (Note 10)	6 485	6 231
Rate integration assistance (Note 10)	4 100	2 975
Adapted transportation	1 435	1 309
Metropolitan expresses	3 556	3 449
SAAQ and other management fees	1 985	4 161
Interest expense on long-term debt	46 396	43 215
Project feasibility studies	4 185	8 347
Amortization of tangible capital assets	33 095	31 351
	<u>276 687</u>	<u>268 344</u>
INCOME BEFORE FOLLOWING ITEM	10 212	3 307
Devaluation of asset-backed commercial papers (Note 17)	<u>(13 310)</u>	<u>(7 767)</u>
NET DEFICIT	<u>(3 098)</u>	<u>(4 460)</u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT
CUMULATIVE COMPREHENSIVE INCOME
 for the years ended December 31,
 (in thousands of dollars)

	2008	2007 (Restated)
NET DEFICIT	(3 098)	(4 460)
Non-realized gains on designated currency rate swap agreements as hedging on cash flows (Note 19)	32 310	
Non-realized losses on designated commodity swaps as hedging on cash flows (Note 19)	(2 081)	
Total of other items in comprehensive income ¹	30 229	
COMPREHENSIVE INCOME	<u>27 131</u>	<u>(4 460)</u>

1 This amount also corresponds to the balance of the item "Total of other items in comprehensive income" in the fund balance.

The notes are an integral part of these financial statements.

CUMULATIVE FUND BALANCE
 for the years ended December 31,
 (in thousands of dollars)

	2008	2007 (Restated)
CUMULATIVE SURPLUS NOT ALLOCATED AT THE BEGINNING OF THE FISCAL YEAR	212 738	217 198
Net deficit	(3 098)	(4 460)
CUMULATIVE SURPLUS NOT ALLOCATED AT THE END OF THE FISCAL YEAR	209 640	212 738
Total of items in comprehensive income	30 229	
CUMULATIVE SURPLUS ALLOCATED AT THE BEGINNING AND AT THE END OF THE FISCAL YEAR (Note 15)	3 423	3 423
FUND BALANCE	<u>243 292</u>	<u>216 161</u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

CUMULATED BALANCE SHEET
as at December 31,
(in thousands of dollars)

	2008	2007 (Restated)
ASSETS		
Cash on hand and term deposits	4 357	10 529
Accounts receivable (Note 21)	13 671	7 497
Government remittances receivable	22 565	22 208
Bank asset-backed commercial papers (Note 17)	23 047	36 479
Spare parts for commuter trains	5 252	5 556
Derivative financial instruments (Note 19)	32 310	
Receivable from the Ministère des Transports du Québec	949 756	874 749
Other subsidies receivable	2 087	1 814
Laval Métro intended for transfer (Note 8)	663 182	660 040
Tangible capital assets (Note 8)	701 341	577 574
	<u>2 417 568</u>	<u>2 196 446</u>
LIABILITIES		
Bank overdraft	2 358	
Short-term borrowings (Note 12)	18 000	
Accounts payable and accrued expenses (Note 22)	135 380	164 450
Long-term debt (Note 13)	966 866	873 181
Derivative financial instruments (Note 19)	2 081	
Deferred subsidies (Note 23)	1 049 591	942 654
	<u>2 174 276</u>	<u>1 980 285</u>
FUND BALANCE	<u>243 292</u>	<u>216 161</u>
	<u>2 417 568</u>	<u>2 196 446</u>

COMMITMENTS AND CONTINGENCIES (Note 18)
SUBSEQUENT EVENT (Note 24)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Joël Gauthier, Director
Martine Corriveau-Gougeon, Director

AGENCE MÉTROPOLITAINE DE TRANSPORT

CUMULATED CASH FLOWS
for the years ended December 31,
(in thousands of dollars)

	2008	2007 (Restated)
OPERATING ACTIVITIES		
Net deficit	(3 098)	(4 460)
Net change in assets and liabilities		
Accounts receivable	(6 174)	(3 341)
Remittances receivable from the Gouvernement du Québec	(75 637)	(51 420)
Spare parts for commuter trains	304	(58)
Accounts payable and accrued expenses	(29 070)	32 776
Non-cash items		
Devaluation of asset-backed commercial papers	13 432	24 864
Amortization of tangible capital assets	33 095	31 351
Net change in deferred subsidies	106 937	79 268
Net change in gain on deferred exchange	1 461	
Cash flows linked to operating activities	<u>41 250</u>	<u>108 980</u>
INVESTMENT ACTIVITIES		
Commuter trains		
– Train fleet		(365)
– Deux-Montagnes	(741)	(936)
– Dorion-Rigaud	121	(2 242)
– Blainville-Saint-Jérôme	(178)	(247)
– Mont-Saint-Hilaire	(3)	(19)
– Delson-Candiac	(8)	(403)
Metropolitan transit facilities		
– Reserved traffic lanes	(597)	(5 361)
– Terminal buildings	(36)	(72 130)
– Incentive parkings	(520)	(3 300)
Laval Métro	(3 142)	(660 040)
Change in current assets		
– Laval Métro and attendant Métro equipment		693 633
– Other	(156 361)	(65 942)
Cash flows used to investment activities	<u>(161 465)</u>	<u>(117 352)</u>
FINANCING ACTIVITIES		
Increase in temporary borrowings	18 000	
New long-term debt	150 414	85 012
Principal repayment	(56 729)	(69 021)
Cash flows from financing activities	<u>111 685</u>	<u>15 991</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8 530)	7 619
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10 529</u>	<u>2 910</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	<u>1 999</u>	<u>10 529</u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. STATUS AND NATURE OF ACTIVITIES

The Agence métropolitaine de transport (AMT) is a legal person established in the public interest, a mandatory of the Québec government, created under the *Act respecting the Agence métropolitaine de transport* (R.S.Q., c. A-7.02, referred to as the Act), which began its activities on January 1, 1996.

In keeping with its incorporating legislation, the AMT manages, operates and finances commuter train services, metropolitan services and metropolitan transit facilities, and plans and performs all subway network extensions.

Financially speaking, the AMT supports Montréal area the transit agencies and sets the metropolitan rates and terms and conditions for sharing metropolitan receipts between transit agencies. The AMT has authority over public transit systems located in its territory, which represents the combined territories of the Communauté urbaine de Montréal, the city of Saint-Jérôme and the Kahnawake Indian Reserve.

Its mission is to increase mass transit services to enhance the efficiency of passenger travel in the Greater Montréal area. The AMT uses railway infrastructure belonging to other railway companies and is dependent on the companies for the control of train traffic.

2. NEW ACCOUNTING POLICIES

On January 1, 2008, the AMT adopted the following chapters of the Canadian Institute of Chartered Accountants (CICA)'s *Public Sector Accounting Handbook*:

- Chapter 3855, "Financial Instruments – Recognition and Measurement";
- Chapter 1530, "Comprehensive Income";
- and Chapter 3865, "Hedges."

It also adopted Chapter 3031, "Inventories." The latter chapter prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent recognition in expenses, including any depreciation up to the net realizable value.

Financial instruments

Chapter 3855 establishes the standards for recording and measuring financial assets, financial liabilities and non-financial derivatives. In accordance with this chapter, financial assets and financial liabilities, including non-financial derivatives, are recorded on the balance sheet when AMT is a party to the contractual provisions of the financial instrument or the non-financial derivative.

Pursuant to this standard, all financial instruments must be measured at their fair value at the time of initial recognition. Fair value is the amount of the consideration subject to an agreement in conjunction with an arm's length transaction concluded between two consenting parties that are not forced to act. Fair value is determined by referring to listed bid prices or asked prices, as the case may be. When bid prices and asked prices are unavailable, the AMT uses the closing price on the most recent transaction to which the instrument is subject.

Comprehensive income

This chapter indicates the standards governing the presentation and disclosure of comprehensive income and its components. The other cumulated items in comprehensive income include, in particular, changes in the fair value of the effective portion of cash flow hedges and changes in the fair value of investments available for sale.

Hedging

This chapter indicates the time and manner of using hedge accounting and the information to be disclosed. Hedge accounting makes it possible to recognize gains, losses, income and expenditure linked to a derivative financial instrument during the same period as those linked to the item covered.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

2. NEW ACCOUNTING POLICIES (cont'd)

Hedging (cont'd)

Derivative financial instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivative financial instruments are recognized in the results during the appropriate period depending on whether or not hedge accounting is used. Transaction costs stemming from financial instruments classified or designated as financial assets or financial liabilities held for transaction purposes are entered as expenses when they are incurred. As for the other financial instruments, transaction costs are capitalized at the time of initial recognition. Interest expenses are recorded using the effective interest rate method.

The AMT chose January 1, 2003 as the transition date for embedded derivatives, as stipulated in the provisions of Chapter 3855 of the CICA handbook. Consequently, only contracts or financial instruments concluded or modified after the transition date have been reviewed in order to compile the embedded derivatives.

All financial instruments are measured at their fair value at the time of initial recognition. Subsequent measurements and the classification are carried out as follows:

- Cash on hand, temporary investments and the bank overdraft are classified as being held for transaction purposes and any change in fair value during the period is recognized as investment income, as the case may be.
- Derivative financial instruments and ABCP are classified as being held for transaction purposes and any change in fair value during the period is recognized in the expenses related to the operation of trains, fuel, the provision for ABCP and in other expenses with the exception of derivatives attached to hedge accounting, which are recognized in the same period as those attached to the item covered.
- Accounts receivable are classified as loans and receivables and are measured at cost after amortization using the effective interest rate method less the provision for doubtful accounts. When the value of the return on money is not important because the receivables are current receivables, the receivables are recorded in the amount of the initial invoice less the provision for doubtful accounts, as the case may be.
- Short-term borrowings, accounts payable, accrued charges and long-term debt are classified as other financial liabilities and are measured at cost after amortization according to the effective interest rate method. When the value of the return on money is not important because the accounts payable and accrued charges are short term, the latter are recorded in the amount of the initial invoice.

Laval Métro destined to be transferred

Long-term assets destined to be transferred are measured at the lesser of book value or fair value reduced by selling costs. Fair value is determined according to the comparable price method or any other appropriate method. Long-term assets cease to be amortized as long as they are classified as being destined for transfer.

Restatement of the presentation of funds on the financial statements

On December 31, 2007 and in preceding years, the AMT's financial statements presented separately the Operating Fund and the Capital Assets Fund, without combining them. These separate financial statements are now presented in a note.

The financial statements for the 2007 fiscal year have been combined to indicate the total amounts presented from the funds in the financial statements.

Restatement concerning government assistance

The AMT previously recorded subsidies allocated for capital assets directly to the balance of the funds and transferred to the results the amounts corresponding to acquisitions during the fiscal year. Since 2008, the AMT has recorded the subsidies allocated as deferred subsidies in liabilities and recognizes them in the results at the same pace as the amortization of the capital assets concerned. This restatement of previous fiscal years has increased (reduced) the following items in the financial statements as at December 31, 2007.

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

2. NEW ACCOUNTING POLICIES (cont'd)**Restatement concerning government assistance (cont'd)**

Result:	Transfer of deferred subsidies: \$16 869
Balance sheet:	Deferred subsidies: \$942 654
	Balance of the funds: \$925 785

3. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared the financial statements according to Canadian generally recognized accounting principles and they include the significant accounting policies.

Operating Fund

In accordance with the provisions of the Act and the practices of fund accounting, the AMT uses an Operating Fund to account for its current operations related to service delivery and operations, as well as the related assets and liabilities (Notes 21, 22, 27 and 28).

Capital Assets Fund

In accordance with the Act's provisions and fund accounting practices, the AMT uses a Capital Assets Fund to record and control permanent financing, real estate investments and contributions for other metropolitan projects (Notes 22, 29 and 30).

Uncertainty stemming from measurement

The preparation of the financial statements, according to Canadian generally recognized accounting principles, requires management to make estimates and assumptions that affect the amounts presented in respect of assets and liabilities and income and expenditure, and the presentation of contingent assets and liabilities. The key evaluations involve liabilities and other claims against the AMT, the fair value of financial instruments and the useful life of tangible capital assets. The real results may differ from the estimates and the differences could be significant.

Revenues

The revenues from traveller transportation are posted when payments are made or when the transportation securities are used by the clientele. Revenue from the sale of TRAIN securities are posted when these securities are valid.

Government subsidies are reported as revenues in the appropriate Fund in the fiscal year for which the work is carried out. The contributions are recognized when the conditions that give rise to such assistance have been fulfilled. Subsidies for amortizable tangible capital assets are recorded as deferred subsidies on the balance sheet and are amortized according to the same method and during the same periods as those in respect of the related tangible capital assets. At the time of disposal of the amortizable tangible capital assets financed, the AMT recognizes in income any balance of the deferred subsidy related to these tangible capital assets. Subsidies for non-amortizable tangible capital assets are recorded when they are earned. Non-earmarked subsidies are recognized as income when they are received or receivable if the amount receivable may be subject to a reasonable estimate and its reception is reasonably assured.

Cash and cash equivalents

The AMT's policy consists in presenting in cash and cash equivalents cash on hand, investments readily convertible in the short term and bank overdrafts, in a known amount of cash whose value does not risk changing significantly.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments

Accounting policies concerning financial instruments are explained in Note 2. The AMT uses derivative financial instruments, such as commodity swap agreements, to manage risks related to changes in fuel prices. These derivatives are not intended to conduct operations on securities or speculative operations. The AMT also uses forward contracts to manage risks stemming from changes in the value of the American dollar related to the purchase of equipment in US dollars in conjunction with a major capital asset program aimed at renewing part of its locomotive fleet.

The AMT now applies hedge accounting to its derivative financial instruments. The AMT documents in the prescribed form its objective and risk management strategy that underpin its hedging activities and all relationships between hedging instruments and hedging items. This process consists in linking all of the derivative financial instruments to specific assets and liabilities, firm commitments or specific anticipated transactions. The effective portion of the hedging relationship deferred in other cumulative comprehensive income is reclassified in the bottom line during the same period in which the hedging item affects the results.

The changes in the fair value of hedged derivative financial instruments in relation to fuel are recorded in expenses related to the operation of trains and fuel. The change in the fair value of hedged derivative financial instruments in relation to equipment in US dollars is recorded in project costs. Derivative financial instruments whose fair value is positive are recorded as assets from derivative financial instruments and those whose fair value is negative are recorded as liabilities from derivative financial instruments.

Currency conversion

Accounts in foreign currencies are converted using the temporal method, whereby monetary items on the balance sheet are converted at the exchange rate in force at the end of the fiscal year. The non-monetary items on the balance sheet and income and expenditure in foreign currencies are converted at the exchange rate in force on the date on which the transactions were conducted. Gains and losses stemming from the exchange rate fluctuation are recognized in the income statement for the period.

Tangible capital assets

The tangible capital assets acquired from the Gouvernement du Québec at the outset of operations in 1996 were recorded at their net transfer value. Subsequent acquisitions were recorded at cost, which includes material, labour, other expenses directly contributory to construction activities and flotation costs capitalized during the period of execution of the work. The cost of restoring and rebuilding rolling stock and costs related to improvements to other tangible capital assets are capitalized if they are committed for the purpose of enhancing the value of services or prolonging the useful life of these tangible capital assets, otherwise such costs are charged to the results when they are incurred. Tangible capital assets that are retired are devalued at their net realizable value. Projects under way, assets in the process of being transferred and retired tangible capital assets are not subject to amortization. Assets in the process of being transferred are recorded at the lesser of net book value or the amount transferred, net of selling costs, as the case may be.

The amortization of tangible capital assets is calculated according to the straight-line depreciation method at rates that allow for the amortization of the cost of the assets, less their residual value, over their estimated useful life as follows:

Railway right-of-ways	40 years
Commuter trains	
Infrastructures	20 years
Worn rolling stock	10 years
New rolling stock – locomotives	20 years
New rolling stock – cars	25 years

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Tangible capital assets (cont'd)

Metropolitan transit facilities	
Reserved traffic lanes	20 years
Incentive parkings	20 years
Terminal buildings	20 years
Major spare parts	
Commuter trains	

The AMT regularly examines the book value of its tangible capital assets by comparing the book value of such assets with the future non-discounted cash flows that the asset should generate. Any surplus of the book value over the fair value is charged to the results for the period during which the depreciation was determined. The estimation of future cash flows and the determination of fair value require the exercising of professional judgement and may vary over time.

Spare parts

The spare parts of commuter trains mainly include parts used to maintain the rolling stock. They are valued at the lesser of average weighted cost and net realizable value in the case of outdated parts.

Subsidies receivable and deferred subsidies

The subsidies receivable to be allocated to the repayment of long-term debt are created at the time of issuing of a long-term debt based on the subsidy rates of different existing eligible tangible capital assets subject to financing. These rates are established according to the terms and conditions of the Gouvernement du Québec's public transportation assistance program and specific agreements. The subsidies receivable are interest-free and recorded under the item "Receivable from the Ministère des Transports du Québec." Deferred subsidies are created at the time of issuing of a subsidized long-term debt or at the time of awarding of a cash subsidy granted on tangible capital assets, in keeping with the public transportation assistance program or specific agreements. The subsidies are transferred to the results on the same basis as the amortization expense in the item "Payment of deferred subsidies."

Accumulated surplus earmarked

The Board of Directors may use surpluses to create reserves. These in-house appropriations are increased or decreased by Board resolution.

4. IMPENDING ACCOUNTING CHANGES

The accounting policies that the AMT now uses are the Canadian generally recognized accounting principles.

The AMT's management is constantly monitoring the outcome of current deliberations at the AcSB and the PSAB since it will significantly affect the presentation of the financial statements and the authoritative accounting pronouncements to be applied in the near future:

– **January 2009: Request for comments**

Financial information of non-profit organizations – published jointly by the AcSB and the PSAB

– **February 2009: Request for comments**

Financial information of public bodies – published by the PSAB

– **March 2009: Exposure draft**

Adoption of the IFRS in Canada II – published by the AcSB

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. IMPENDING ACCOUNTING CHANGES (cont'd)

The Public Sector Accounting Board (PSAB) published a request for comments on February 24, 2009 concerning a change in authoritative accounting pronouncements for some or all public enterprises and commercial public bodies for the adoption of the IFRS.

In this exposure draft from the PSAB, certain public bodies could be reclassified and obliged to refer to a different GAAP source. Other bodies might conclude following an examination that they are not currently classified in the right category, which could lead them to change their GAAP source. Lastly, certain public bodies that will have the choice of complying with the IFRS or the *Public Sector Accounting Handbook* might decide to change their GAAP source. The request for comments is based on the existing definitions of types of public bodies.

The AMT's management continues to monitor the outcome of the deliberations under way at the AcSB and the PSAB. Given that significant changes are occurring with respect to the presentation of financial statements and the authoritative accounting pronouncements to be applied, we wish to inform accordingly the readers of our financial statements.

5. NET REVENUE FROM TRAM SALES

In previous fiscal years, net receipts from the sale of TRAM tickets were recorded in the revenues of the AMT and the breakdown of the receipts was recorded in its expenses. Starting in this fiscal year, the receipts will be presented net of the corresponding expenses. The comparative 2007 figures have been restated.

Net revenue from TRAM tickets sales corresponds to metropolitan transit tickets sold by public transit operating authorities (PTOA) giving the bearer access to transportation services provided by more than one PTOA. Under section 42 of the Act, the AMT and the PTOAs share the net receipts from the sale of metropolitan transport documents according to use of their respective transportation systems.

The breakdown of net revenues from TRAM tickets sales, net of allocation of a portion of the revenues to commuter trains (Note 6) and metropolitan expresses, is as follows:

	Budget 2008 - unaudited	2008	2007 (Restated)
Société de transport de Montréal	35 299	39 984	33 530
Réseau de transport de Longueuil	15 816	16 988	15 844
Société de transport de Laval	8 988	9 991	9 339
Intermunicipal transportation councils	12 391	13 992	12 065
Municipalities	933	1 010	917
	<u>73 427</u>	<u>81 965</u>	<u>71 695</u>

6. COMMUTER TRAINS

Commuter train receipts

Commuter train receipts result from the sale of train tickets and a \$29 275 allocation for TRAM tickets sales in 2008 (2007: \$27 524).

Receipts from commuter trains break down as follows:

Line: Montréal /	Budget 2008 - unaudited	2008	2007 (Restated)
Deux-Montagnes	18 920	18 631	18 669
Dorion-Rigaud	8 354	9 951	8 538
Blainville-Saint-Jérôme	7 866	7 903	7 980
Mont-Saint-Hilaire	5 308	5 816	5 153
Delson-Candiac	2 185	2 156	1 959
	<u>42 633</u>	<u>44 457</u>	<u>42 299</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. COMMUTER TRAINS (cont'd)

Municipal contributions to commuter trains

In keeping with the Act, the AMT breaks down a portion of the operating and management costs of the Deux-Montagnes and Dorion-Rigaud commuter train routes between the municipalities served by the route according to the number of trains, per kilometre, serving each segment.

In keeping with the Act, the AMT breaks down a portion of the operating and management costs of the Blainville-Saint-Jérôme, Mont-Saint-Hilaire and Delson-Candiac commuter train routes between the municipalities served by this route according to the number of commuter train departures, at each station, for each segment.

The municipalities whose territory is served by the same segment share the amount established for that segment on a prorated basis according to their standardized real estate value, under section 261.1 of the *Act respecting municipal taxation* (R.S.Q., c. F-2.1), established for the reference year or any other internal formulas.

Municipal contributions to the commuter train lines break down as follows:

Line: Montréal /	Budget 2008 - unaudited	2008	2007 (Restated)
Deux-Montagnes	12 632	13 008	12 339
Dorion-Rigaud	9 481	9 903	9 393
Blainville-Saint-Jérôme	6 342	6 444	6 189
Mont-Saint-Hilaire	5 014	5 396	4 041
Delson-Candiac	1 532	1 443	1 422
	<u>35 001</u>	<u>36 194</u>	<u>33 384</u>

Operating costs

The breakdown of management and operating costs by commuter train route is:

Line: Montréal /	Budget 2008 - unaudited	2008	2007 (Restated)
Deux-Montagnes	31 580	32 520	30 848
Dorion-Rigaud	23 484	24 757	23 264
Blainville-Saint-Jérôme	15 855	16 122	15 473
Mont-Saint-Hilaire	12 534	14 840	13 053
Delson-Candiac	5 250	5 208	4 798
	<u>88 703</u>	<u>93 447</u>	<u>87 436</u>

7. MUNICIPAL CONTRIBUTIONS

To fund a portion of the unsubsidized Capital Assets Fund's expenditures, municipalities whose territory falls within that of the AMT must pay an annual amount of \$0.01/\$100 of their standardized real estate value, as defined in section 261.1 of the *Act respecting municipal taxation* (R.S.Q., c. F-2.1), established for the reference year.

8. TANGIBLE CAPITAL ASSETS

The Laval subway line became operational on April 28, 2007. An agreement was signed by the Société de transport de Montréal, the AMT, the Ministère des Finances du Québec and the Ministère des Transports du Québec to permit the subsequent transfer, to the STM, of infrastructures linked to subway operations, excluding the related metropolitan facilities.

This transfer will occur under section 47 of the Act respecting the Agence métropolitaine de transport.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. TANGIBLE CAPITAL ASSETS (cont'd)

This asset transfer will decrease the AMT's capital assets and deferred contributions by approximately \$663 182. The transfer will also reduce the MTQ receivable and the related debt by the same amount. Moreover, the balance of the deferred subsidy will also be reduced.

	2008		2007
	Cost	Accumulated depreciation	Net value
Commuter trains			
Train fleet	319 020	162 158	156 862
Deux-Montagnes			
- Land	15 041		15 041
- Infrastructures	82 108	52 219	29 889
Dorion-Rigaud			
- Land	634		634
- Infrastructures	44 378	29 953	14 425
Blainville-Saint-Jérôme			
- Land	3 061		3 061
- Infrastructures	44 873	9 929	34 944
Mont-Saint-Hilaire			
- Land	2 575		2 575
- Infrastructures	29 855	9 458	20 397
Delson-Candiac			
- Land	54		54
- Infrastructures	6 885	1 687	5 198
Metropolitan transit facilities			
- Land	24 342		24 342
- Reserved traffic lanes	65 806	17 848	47 958
- Incentive parking	18 660	6 081	12 579
- Terminal building	103 336	18 199	85 137
Spare parts for commuter trains	587		587
Construction work in progress			
- Train de l'Est	44 426		44 426
- Train fleet	158 017		158 017
- Other projects	46 676		46 676
Deferred gain on exchange	(1 461)		(1 461)
	<u>1 008 873</u>	<u>307 532</u>	<u>701 341</u>
Laval Métro intended for transfer	<u>663 182</u>	<u></u>	<u>663 182</u>
			<u>660 040</u>

9. METROPOLITAN TRANSIT ASSISTANCE AND RELATED EXPENDITURES

Based on certain factors, terms and conditions, the AMT granted financial assistance to the PTOAs to offset, in whole or in part, the cost of their contribution to the subway transit system or the metropolitan transit bus system.

The amount of metropolitan transit assistance is calculated as follows:

- \$0.20 per passenger assessed using subway system turnstile readings totalling \$43 933 in 2008 (2007: \$44 260).

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

9. METROPOLITAN TRANSIT ASSISTANCE AND RELATED EXPENDITURES (cont'd)

- \$0.50 per passenger using metropolitan transit bus system services at a boarding point in the AMT territory, during morning and evening peak periods, assessed using three readings taken during the year totalling \$11 075 in 2008 (2007: \$11 847).
- Gradual implementation of new assistance for the bus system with train feeder services: \$0.50 per passenger transferring to a train from a bus circuit with a feeder service at a commuter train station, totalling \$841 in 2008 (2007: \$576).

The total metropolitan assistance breaks down as follows:

	Budget 2008 - unaudited	2008	2007 (Restated)
Subway:			
Société de transport de Montréal	43 933	43 933	44 260
Bus:			
Société de transport de Montréal	5 568	5 237	5 512
Réseau de transport de Longueuil	3 064	3 115	3 164
Société de transport de Laval	760	696	1 149
Intermunicipal transportation councils	1 307	1 386	1 431
Conseil régional de transport de Lanaudière	330	501	457
Municipalities	129	140	134
	11 158	11 075	11 847
Assistance for the bus system with train feeder services:			
Société de transport de Montréal	377	337	283
Réseau de transport de Longueuil	43	40	29
Société de transport de Laval	75	86	56
Intermunicipal transportation councils	290	378	208
	785	841	576
Related expenditures	400	200	196
	56 276	56 049	56 879

10. ASSISTANCE FOR REDUCED AND INTERMEDIATE RATE TRAM TICKETS AND RELATED EXPENDITURES

Under section 35, paragraph 1, subparagraph 9 of the Act, since 1999, the AMT has covered the cost of the discount offered for TRAM tickets to compensate, in whole or in part, the PTOAs for the reduced and intermediate rate tickets offered TRAM users. For 2008, the AMT set the ceiling for assistance for reduced and intermediate rate TRAM tickets at \$6 485 for TRAM zones 1-8 (2007: \$6 231).

The assistance for reduced and intermediate rate TRAM tickets breaks down as follows:

	Budget 2008 - unaudited	2008	2007
Société de transport de Montréal	2 881	3 012	2 792
Réseau de transport de Longueuil	1 503	1 393	1 414
Société de transport de Laval	809	765	788
Intermunicipal transportation councils	925	898	855
Conseil régional de transport de Lanaudière	308	320	288
Municipalities	101	97	94
	6 527	6 485	6 231

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

11. RATE INTEGRATION ASSISTANCE

In 2005, the AMT introduced rate integration assistance. This metropolitan assistance is designed to ensure, in whole or in part, PTOAs participating in the metropolitan fare system of a share of the metropolitan receipts at least equivalent to the receipts that would have been generated by their local rates reduced by the metropolitan rate discount.

Rate integration assistance breaks down as follows:

	Budget 2008 - unaudited	2008	2007 (Restated)
Société de transport de Montréal	2 848	1 720	1 675
Réseau de transport de Longueuil	148	318	56
Société de transport de Laval	888	1 472	1 037
Intermunicipal transportation councils	286	491	199
Conseil régional de transport de Lanaudière		92	8
Municipalities		7	
	<u>4 170</u>	<u>4 100</u>	<u>2 975</u>

12. SHORT-TERM BORROWINGS

The Agence may contract short-term borrowings with the Ministère des Finances. The short-term and long-term borrowing power is set by order-in-council, which is renewed every two years. The order-in-council in force has been extended until June 30, 2009 in the amount of \$478 400. The short-term credit facility bears interest at a weighted rate of 1.9438%. As at December 31, 2008, the AMT had a used balance in this short-term credit facility of \$18 000 (\$0 in 2007).

13. LONG-TERM DEBT

The AMT contracted loans with the Ministère des Finances. Under the Gouvernement du Québec's mass transit assistance program, the MTQ committed to paying the AMT an annual subsidy of an amount corresponding in part to the repayment of these notes, capital and interest (Note 23). During the fiscal year, the total amount cashed from the MTQ subsidy for reimbursement of these notes was \$91 344, including \$40 634 in interests. The following debts bear interest at fixed rates.

	2008	2007 (Restated)
Notes payable		
Issued in 2003, at an interest rate of 4.513% – Maturing in 2008		2 048
Issued in 1999, at an interest rate of 6.320% – Maturing in 2009	956	2 783
Issued in 2000, 2001, 2003, 2006 and 2007, at interest rates varying between 4.119% and 5.958% - Maturing in 2010	120 121	132 750
Issued in 2005, at an interest rate of 4.079% - Maturing in 2011	23 902	25 000
Issued in 2002, at interest rates varying between 5.385% and 5.945% - Maturing in 2012	45 186	51 048
Issued in 2003, 2004, 2005 and 2007, at interest rates varying between 4.097% and 5.167% - Maturing in 2013	176 880	184 989
Issued in 2004 and 2005, at interest rates varying between 4.169% and 5.267% - Maturing in 2014	140 287	147 574
Issued in 2005 and 2006, at interest rates varying between 4.320% and 4.783% - Maturing in 2015	<u>67 313</u>	<u>70 918</u>
Amounts carried forward	<u>574 645</u>	<u>617 110</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

13. LONG-TERM DEBT (cont'd)

	2008	2007 (Restated)
Notes payable (cont'd)		
Amounts brought forward	574 645	617 110
Issued in 2006 and 2007, at interest rates varying between 4.478% and 4.960% - Maturing in 2016	109 484	114 920
Issued in 2006, 2007 and 2008, at interest rates varying between 4.317% and 4.906% - Maturing in 2017	114 468	57 059
Issued in 2008, at interest rates varying between 4.410 % and 4.659 % - Maturing in 2018	87 223	
Issued in 2002, at interest rates of 6.039% - Maturing in 2022	8 190	8 553
Issued in 2004, at interest rates varying between 5.379% and 5.453% - Maturing in 2024	20 353	21 138
Issued in 2005, 2006 and 2007, at interest rates varying between 4.602% and 5.261% - Maturing in 2025	34 067	35 311
Issued in 2006, at an interest rate of 4.886% - Maturing in 2026	18 436	19 090
	<u>966 866</u>	<u>873 181</u>

Annual reimbursement of capital and interest:

	Assumed by the MTQ	Assumed by the AMT	Total
2009	90 904	12 535	103 439
2010	182 083	13 335	195 418
2011	89 571	14 153	103 724
2012	89 051	10 890	99 941
2013	179 198	24 028	203 226
2014 and thereafter	452 814	55 205	508 019
	<u>1 083 621</u>	<u>130 146</u>	<u>1 213 767</u>
Interest included	<u>(220 655)</u>	<u>(26 246)</u>	<u>(246 901)</u>
	<u>862 966</u>	<u>103 900</u>	<u>966 866</u>

The \$862 966 assumed by the MTQ is recorded in the Capital Assets Fund balance sheet at December 31, 2008, under the asset item "Receivable from the Ministère des Transports du Québec."

14. EMPLOYEES' FUTURE BENEFITS

On July 1, 2007, the AMT implemented a defined contribution pension plan for all employees, according to eligibility. The employer's basic contribution is set at 5% of the employee's salary. The employer also pays supplemental contributions of 50% of the employees' voluntary contributions, up to a maximum of 3% of the supplemental contributions charged to the income statement for the fiscal year. The AMT's contributions to the income statement for the fiscal year stand at \$619 (\$421 in 2007).

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

15. ACCUMULATED SURPLUS EARMARKED

The Board of Directors resolved to earmark in 2006 \$3 423 of the surplus to create a reserve to cover certain risks to which its property and commuter train operations are exposed and to establish a reserve for the implementation of certain future operating activities aimed at increasing the availability of services stemming from the *Québec Public Transit Policy*. In 2008, the Board of Directors resolved to reallocate \$2 727 created from the 2006 reserve to budgetary balance in 2009, subject to any surplus recognized subsequently being used, first and foremost, to reconstitute this reserve, as stipulated in s. 61 of the Act.

16. FINANCIAL INSTRUMENTS

Management has adopted control and management procedures that ensure the management of the risk inherent in financial instruments and minimize its potential impact.

Fair value

The estimated fair value of the financial instruments recorded, other than derivative financial instruments, asset-backed commercial paper and long-term debt, is close to their cost bearing in mind their short-term maturity date. The AMT has resorted to derivative financial instruments in the management of risks related to the price of diesel and the exchange rate. It does not use them for the purposes of speculation.

The fair value of the long-term debt stands at \$1 028 440, bearing in mind the discounting of cash flows at market interest rates in respect of securities displaying similar conditions and characteristics.

Credit risk

The AMT monitors, in the normal course of its activities, the financial position of its clients and examines the credit history of each new client. The AMT is of the opinion that there is no significant concentration of credit risk. The book value of financial assets represents the AMT's maximum exposure to credit risk.

Interest rate risk

The short-term borrowing and most of the long-term debt bears fixed interest rates. Consequently, the interest rate risk related to cash flows to which the AMT is exposed is minimal as is the market risk linked to interest rates, given that the AMT expects to make repayment within the anticipated time frame.

Price risk on goods

To mitigate the impact of diesel price fluctuations, the AMT has a hedging strategy that consists in conducting swap transactions on heating oil for a target percentage of future fuel consumption, up to two years in advance. As at December 31, 2008, two heating oil swaps existed (Note 19) and have a negative fair value of \$2 081.

Foreign exchange risk

While the AMT conducts its business and receives operating income essentially in Canadian dollars, part of its expenses, cash on hand and capital assets is denominated in US dollars. Consequently, the AMT's income statement is affected by exchange rate fluctuations between these currencies. To minimize the impact of the conversion into Canadian dollars of the cost of capital assets denominated in foreign currencies, the AMT resorts to a foreign exchange swap, which is indicated as a hedging instrument for accounting purposes. As at December 31, 2008, this swap, recorded on the balance sheet (Note 19) had a fair value of \$32 310.

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

17. ASSET-BACKED COMMERCIAL PAPERS

The AMT's cash flows create temporary cash surpluses which are invested in short-term investments. In August 2007, \$44 246 of these investments were invested in asset-backed commercial papers (ABCP). The ABCP was a current receivable backed by an array of financial instruments. The assets, such as mortgage loans receivable or consumption loans, or exposure to risk such as credit default swaps, are acquired through a conduit by means of different types of transactions, including purchases of assets and financial derivatives. The ABCP is usually issued for 30, 60 or 90 days, either discounted or at interest.

The financial instruments serving as assets to an issuing conduit of ABCP usually have longer maturity dates than the maturity date of the ABCP issued. The conduit must typically have at its disposal liquidity backstop facilities with a financial institution, under certain conditions, should it be unable to issue new ABCP securities in order to repay those that mature or to satisfy needs for additional cash resources.

Until the summer of 2007, the compression of credit spreads fostered the creation of leveraged super seniors (LSS), which provide investors with exposure backed by a leveraged proportion of a group of reference assets. Generally speaking, this exposure corresponds to several times the amount invested by the investors in a given conduit and offered as a guarantee by the conduit in respect of the beneficiary of the credit protection. For example, a \$10-million investment may be backed 10 times by means of a credit lien to a super senior tranche in the nominal amount of \$100 million. The combination of assets offered as a guarantee and a swap contract against credit default, such as an LSS, is usually identified as a "synthetic" asset.

A super senior tranche is combined with a point of attachment, i.e. the threshold level of loss that the reference asset group must experience before the payment obligations are triggered. Generally speaking, this threshold significantly exceeds the level of loss stemming from an R-1 (high) or AAA rating. Accordingly, the level of loss to which the super senior tranche is exposed is usually lower than the historic experience for this level of rating. When the level of loss increases or when there are indicators that show that it might rise (triggers for calls for additional guarantees), the purchasers of protection against the credit default may demand an additional guarantee, in addition to the amounts initially invested. However, to deal with these calls for additional guarantees, the original structures did not dispose of mechanisms to access cash resources.

If the additional guarantee cannot be provided, the LSS is closed for the benefit of the purchaser of the protection against the credit default. This closing leads to a loss for the investors in the ABCP, even if the real loss of the reference asset group has not reached the point of attachment on the super senior tranche.

The crisis in high-risk mortgage loans in the United States triggered upheavals on the international markets that led to a liquidity crisis in the Canadian third-party ABCP market in August 2007. Since that time, the AMT had been unable to obtain the repayment of the amounts due pursuant to third-party ABCP. At the time of their acquisition by the AMT, the ABCP was rated R-1 (high) by the credit rating agency DBRS Limited (DBRS), the highest rating that DBRS granted for asset-backed commercial paper.

The Canadian third-part ABCP market suffered a liquidity crisis in mid-August 2007, since the suppliers of liquidity guarantees did not make available the amounts committed pursuant to the commitments provided since they did not deem the requisite conditions in this respect to have been fulfilled. The investors and the banks that had purchased protection against credit default then agreed upon a moratorium and initiated talks in conjunction with the Montréal Proposal and the Pan Canadian Committee of ABCP Investors.

The participants in the agreement also reached agreement in principle on December 23, 2007 concerning the conversion of investments in ABCP into long-term financial instruments combined with maturity dates corresponding to the underlying assets. The main objectives of the restructuring proposal announced on that date were to replace third-party ABCP with new securities with maturity dates similar to those of the underlying debt securities and financial assets (certain of our securities have maturity dates that can run to 2056), group together certain series of third-part ABCP that are wholly or partially supported by synthetic assets, streamline obligations for margin calls on LSS, implement margin financing facilities, and foster a secondary market in order to generate liquidities for the bearers of third-party ABCP.

AGENCE MÉTROPOLITAINE DE TRANSPORT
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

17. ASSET-BACKED COMMERCIAL PAPERS (cont'd)
Subsequent event

On December 24, 2008, the Pan Canadian Committee of ABCP investors and banks that had purchased protection reached final agreement on restructuring, which was ratified on January 21, 2009 after the requisite authorizations and orders-in-council were obtained. The highlights of the agreement are indicated below:

- The creation of three new structures in the form of trusts, called “master asset vehicles” (“MAV 1,” “MAV 2,” and “MAV 3”);
 - MAV 1 and MAV 2 group together the transactions of the ABCP conduits solely comprising synthetic assets or hybrid assets, i.e. a combination of synthetic and traditional assets. They also include the high-risk assets associated with these transactions;
 - MAV 3 comprises the transactions of ABCP conduits solely made up of high-risk assets and traditional assets;
- The establishment of an initial 18-month moratorium ending July 21, 2010 to allow for the creation of a market for these new securities.

Interest for the period from August 2007 to August 2008 was received in January 2009 and was recorded in fiscal 2008 in the amount of \$1 343 (including \$161 in the Capital Assets Fund).

	2008		
	Cost	Cumulative unrealized loss	Fair value
Synthetic assets (MAV 2)			
A-1	13 968	4 889	9 079
A-2	9 563	3 825	5 738
B	1 736	1 493	243
C	9 940	9 443	497
High-risk assets			
MAV 3	8 917	1 427	7 490
	<u>44 124</u>	<u>21 077</u>	<u>23 047</u>

Bearing in mind the information available when the financial statements were prepared, the AMT measured the fair value of the investments in the ABCP as at December 31, 2008 and concluded that on that date its investments would not be realized within 90 days and, consequently, that the ABCP are deemed to be long-term and are classified as assets held for transaction purposes. For this reason, the AMT's management estimated the fair value of these assets. The evaluation technique used is based on the discounting of future monetary flows, bearing in mind the bankers' acceptances rate in order to estimate real interest income inflows and the yield on Class A commercial bonds of this type of investment, i.e. a long-term yield on a traditional investment, to which a risk and liquidity premium is added. These estimates have been established using external sources.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 December 31, 2008
 (in thousands of dollars)

17 ASSET-BACKED FINANCIAL PAPERS (cont'd)**Subsequent event (cont'd)**

	2008	2007 (Restated)
Operating Fund		
Commercial papers	39 636	39 758
Provision for devaluation	<u>(19 821)</u>	<u>(6 444)</u>
Net Operating Fund	<u>19 815</u>	<u>33 314</u>
Capital Assets Fund		
Commercial papers	4 488	4 488
Provision for devaluation	<u>(1 256)</u>	<u>(1 323)</u>
Net Capital Assets Fund	<u>3 232</u>	<u>3 165</u>
Net total	<u><u>23 047</u></u>	<u><u>36 479</u></u>

Following this evaluation, the AMT recognized an additional loss in value of \$13 310 (Operating Fund: loss of \$13 377 and Capital Assets Fund: gain of \$67) linked to these ABCP during the fiscal year ended December 31, 2008 (\$7 767 for 2007). Consequently, the loss in value totals \$21 077 as at December 31, 2008, including \$1 256 in the Capital Assets Fund.

The estimate of the fair value of the investments in ABCP conducted by the AMT as at December 31, 2008 is surrounded by considerable uncertainty. While management deems its evaluation technique to be appropriate under the circumstances, changes in the key assumptions could significantly affect the value of the ABCP securities in the coming years. The resolution of this uncertainty might mean that the final value of these investments diverges considerably from management's current best estimates and the scope of this discrepancy might then affect our future financial performance, as was the case in 2008.

18. COMMITMENTS AND CONTINGENCIES**Operating Fund commitments**

The AMT signed contractual agreements with a number of suppliers, mainly for the operation and management of commuter rail systems and metropolitan transit facilities. Commitments under these agreements for the coming fiscal years are:

2009	90 018
2010	35 713
2011	8 351
2012	6 695
2013	6 489
2014 and thereafter	<u>11 748</u>
	<u><u>159 014</u></u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

18. COMMITMENTS AND CONTINGENCIES (cont'd)

Capital Assets Fund commitments

The AMT has contractual agreements with certain suppliers for the capital assets projects under way. The MTQ has made a commitment to the AMT to subsidize a portion of these capital assets investments. Commitments under the contracts awarded for these projects are:

2009	160 882
2010	122 177
2011	102 061
2012	72 847
2013	8 370
2014 and thereafter	<u>34 958</u>
	<u>501 295</u>

Claims

In its normal course of business, the AMT is involved in various claims and lawsuits. Although the outcomes of the various files active on December 31, 2008 cannot be foreseen with any certainty, the AMT estimates that they should not have significant negative repercussions on its financial position and net results, given the provisions or insurance coverage related to these items.

19. DERIVATIVE FINANCIAL INSTRUMENTS

The AMT's derivative financial instruments have been concluded with a single counterparty, which, since it displays superior credit quality, exposes the AMT to minimal credit risk in the event of non-execution. The fair value of the derivative financial instruments is defined as the discounted value of unrealized gains and losses calculated according to market price as at December 31, 2008. This estimate reflects the estimated amount that the AMT would receive or pay to cancel the contracts on the date indicated on the balance sheet.

The AMT uses two types of derivative financial instruments, i.e. swaps and foreign exchange contracts. The swaps are linked to a commodity (No. 2 heating oil) for which the parties exchange cash payments based on changes in commodity prices or the market index, which makes it possible to set the price that the parties actually pay for the commodities. As for the term foreign exchange contract, it is linked to future capital asset projects and constitutes a contractual agreement aimed at purchasing US dollars at a future date and a pre-established rate.

At the end of the fiscal year, the following derivative financial instrument with a positive fair value:

	<u>Fixed price</u>	<u>Reference amount</u>	<u>Fair value 2008</u>	<u>Fair value 2007</u>
Foreign exchange				
October 2008 to July 2014	CAN\$1.0697	US\$223 570	<u>32 310</u>	<u></u>

At the end of the fiscal year, the AMT held the following derivative financial instruments with a negative fair value:

	<u>Fixed price</u>	<u>Reference amount</u>	<u>Fair value 2008</u>	<u>Fair value (Restated) 2007</u>
Heating oil				
January 2009 to December 2009	CAN\$0.7117/litre	4 524 000 litres	(917)	
January 2009 to March 2010	CAN\$0.6996/litre	6 786 000 litres	<u>(1 164)</u>	<u></u>
			<u>(2 081)</u>	<u></u>

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

20. CASH FLOWS

Cash and cash equivalents indicated in the statement of cash flows include the following amounts recorded on the balance sheet:

	2008	2007 (Restated)
Cash on hand	4 357	4 536
Term deposits		5 993
Bank overdraft	(2 358)	
Cash and cash equivalents	<u>1 999</u>	<u>10 529</u>

The interest paid during the fiscal year stands at \$46 712 (\$43 462 in 2007).

21. ACCOUNTS RECEIVABLE

	2008	2007 (Restated)
Operating Fund		
Accounts receivable from AOTs	7 089	1 859
Accounts receivable from the municipalities	2 655	29
Other accounts receivable	2 125	1 373
Provision for municipal train contributions receivable	1 269	2 990
MTQ receivable – Fonds Vert	859	1 415
Receivable from (payable by) the AOTs following the sharing of metropolitan receipts	(3 815)	(1 667)
Prepaid expenses	489	518
Other	3 000	980
Total	<u>13 671</u>	<u>7 497</u>

22. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007 (Restated)
Operating Fund		
Accounts payable	5 542	40 271
Account payable – Metropolitan assistance	27 567	105
Account payable – Assistance for reduced-rate TRAM tickets	6 487	6 231
Accrued charges of train lines	7 362	7 440
Accrued operating and equipment expenses	3 446	2 582
Other expenses incurred	4 229	5 209
Provision for claims	2 368	2 363
Other	6 044	5 753
Total to bring forward	<u>63 045</u>	<u>69 954</u>

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

22. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (cont'd)

	2008	2007 (Restated)
Total brought forward	63 045	69 954
Capital Assets Fund		
Accounts payable	48 523	69 851
Accrued charges	21 374	22 011
Other accounts payable	2 438	2 634
Total	72 335	94 496
Grand total – Accounts payable and accrued liabilities	135 380	164 450

23. DEFERRED SUBSIDIES

	MTQ	Other	Total
Deferred subsidies at the beginning of the fiscal year	939 624	3 030	942 654
New subsidies earmarked for the fiscal year under way	122 548	1 727	124 275
Transfer to the income statement of the fiscal year under way	(16 839)	(499)	(17 338)
Subsidies deferred to the end of the fiscal year	1 045 333	4 258	1 049 591

The transfer to the income statement of the deferred subsidies for 2007 stood at \$16 869 for a balance in deferred subsidies at the end of the fiscal year of \$942 654.

24. SUBSEQUENT EVENT

Uncertified class action

On February 10, 2009, a motion for leave to launch a class action was filed against the AMT. In the motion, it is alleged that the AMT fails to respect the timetables that it publishes and operates behind schedule on the Montréal/Dorion-Rigaud and Montréal/Deux-Montagnes commuter lines.

The amounts claimed in the motion by way of compensatory damages are on the order of one thousand dollars per user on the two train lines concerned and an amount equivalent to 30% of the cost of the tickets purchased since December 2007.

25. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the agency is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The agency did do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

26. COMPARATIVE FIGURES

Some 2007 figures were reclassified for consistency with the presentation adopted in 2008.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

27. INCOME STATEMENT AND OPERATING FUND DEFICIT

	Budget 2008 (unaudited)	2008	2007 (Restated)
REVENUES			
Gouvernement du Québec remittances:			
– for fuel tax	51 162	51 133	50 996
– for licence fees	52 049	52 508	51 225
Revenue from commuter trains (Note 6)	44 446	44 457	42 299
Municipal contributions to the cost of commuter rail systems (Note 6)	34 047	36 194	33 384
Gouvernement du Québec contributions to the <i>Politique de développement durable</i>	954	1 469	1 415
Ministère des Transports du Québec subsidies to service the public transit operating authorities (PTOA) debt:			
– for commuter trains			2 066
– for metropolitan transit facilities			260
Government assistance for adapted transportation program	450	450	450
Revenue from metropolitan expresses	2 461	2 373	2 295
Municipal contributions to metropolitan expresses	448	29	374
Contributions to metropolitan transit facilities	3 373	2 979	1 797
Statements of offence, etc.	2 000	2 193	441
Interest income		1 324	1 021
	<u>191 390</u>	<u>195 109</u>	<u>188 023</u>
EXPENSES			
Metropolitan assistance and related expenditures (Note 9)	56 630	56 049	56 879
Commuter trains (Note 6)	88 703	93 447	87 436
Metropolitan transit facilities	15 326	15 049	13 496
PTOA debt servicing:			
– for commuter trains			2 066
– for metropolitan transit facilities			262
Operating expenses	7 380	8 154	7 414
Development assistance	3 000	2 751	2 081
Assistance for reduced-rate TRAM tickets and related expenses (Note 10)	8 399	6 485	6 231
Rate integration assistance (Note 11)	4 213	4 100	2 975
Adapted transportation	1 600	1 435	1 309
Metropolitan expresses	3 285	3 556	3 449
SAAQ and other management fees	1 850	1 936	1 711
Contingency reserve	1 004		
	<u>191 390</u>	<u>192 962</u>	<u>185 309</u>
INCOME BEFORE FOLLOWING ITEM			
Devaluation of asset-backed commercial papers (Note 17)		2 147	2 714
		<u>(13 377)</u>	<u>(6 444)</u>
NET DEFICIT			
		(11 230)	(3 730)
COMPREHENSIVE INCOME			
Non-realized losses on designated commodity swaps as hedging on cash flows (Note 19)		(2 081)	
OPENING UNAPPROPRIATED SURPLUS (DEFICIT)			
		(772)	2 958
CLOSING UNAPPROPRIATED DEFICIT AND ACCUMULATED COMPREHENSIVE INCOME			
		<u>(14 083)</u>	<u>(772)</u>

The notes are an integral part of these financial statements..

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

28. BALANCE SHEET OF THE OPERATING FUND

	2008	2007 (Restated)
ASSETS		
Cash on hand and term deposits		6 555
Accounts receivable (Note 21)	13 671	7 497
Government remittances receivable	22 565	22 208
Bank asset-backed commercial papers (Note 17)	19 815	33 314
Spare parts for commuter trains	5 252	5 556
	<u>61 303</u>	<u>75 130</u>
LIABILITIES		
Bank overdraft	2 358	
Accounts payable and accrued expenses (Note 22)	63 045	69 954
Derivative financial instruments (Note 19)	2 081	
Payable to the Capital Assets Fund	4 479	2 525
	<u>71 963</u>	<u>72 479</u>
FUND BALANCE		
Unappropriated deficit and accumulated comprehensive income	(14 083)	(772)
Appropriated surplus (Note 15)	3 423	3 423
	<u>(10 660)</u>	<u>2 651</u>
	<u><u>61 303</u></u>	<u><u>75 130</u></u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 December 31, 2008
 (in thousands of dollars)

29. INCOME STATEMENT AND CAPITAL ASSETS FUND SURPLUS

	<u>2008</u>	<u>2007 (Restated)</u>
REVENUES		
Transfer of deferred MTQ and other subsidies (Note 23)	17 338	16 869
Municipal contributions (Note 7)	28 945	24 414
Income interest	41 828	39 582
Other revenue	<u>3,679.</u>	<u>2 763</u>
	<u>91 790</u>	<u>83 628</u>
EXPENSES		
Interest expense on long-term debt	46 396	43 215
Project feasibility studies	4 185	8 347
Amortization of tangible capital assets	33 095	31 351
Other expenses	<u>49</u>	<u>122</u>
	<u>83 725</u>	<u>83 035</u>
INCOME BEFORE FOLLOWING ITEM	8 065	593
Devaluation of asset-back commercial papers (Note 17)	<u>67</u>	<u>(1 323)</u>
NET INCOME (DEFICIT) BEFORE COMPREHENSIVE INCOME	8 132	(730)
COMPREHENSIVE INCOME		
Non-realized gains on designated currency rate swap agreements as hedging on cash flows (Note 19)	32 310	
OPENING UNAPPROPRIATED SURPLUS	<u>213 510</u>	<u>214 240</u>
UNAPPROPRIATED SURPLUS AND CLOSING ACCUMULATED COMPREHENSIVE INCOME	<u>253 952</u>	<u>213 510</u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

30. BALANCE SHEET OF THE CAPITAL ASSETS FUND

	2008	2007 (Restated)
ASSETS		
Cash on hand and term deposits	4 357	3 974
Bank asset-backed commercial papers (Note 17)	3 232	3 165
Ministère des Transports du Québec receivable	949 756	874 749
Other subsidies receivable	2 087	1 814
Laval Métro intended for transfer (Note 8)	663 182	660 040
Tangible capital assets (Note 8)	701 341	577 574
Derivative financial instruments (Note 19)	32 310	
Operating Fund receivable	4 479	2 525
	<u>2 360 744</u>	<u>2 123 841</u>
LIABILITIES		
Short-term borrowings (Note 12)	18 000	
Accounts payable and accrued expenses (Note 22)	72 335	94 496
Long-term debt (Note 13)	966 866	873 181
Deferred subsidies (Note 23)	1 049 591	942 654
	<u>2 106 792</u>	<u>1 910 331</u>
FUND BALANCE		
Unappropriated surplus	253 952	213 510
	<u>2 360 744</u>	<u>2 123 841</u>

The notes are an integral part of these financial statements.

AGENCE MÉTROPOLITAINE DE TRANSPORT**MANAGEMENT'S REPORT**

concerning the presentation of financial information

The financial statements of the Agence métropolitaine de transport were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial information.

The Agence recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management performs its financial reporting duties, and approves the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, reviews the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Agence's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Joël Gauthier
President-Chief Executive Officer

Louis Champagne, CA
Vice-President, Administration and Finance, and Treasurer

Montréal, April 30, 2009

AGENCE MÉTROPOLITAINE DE TRANSPORT**AUDITORS' REPORT**

To the National Assembly

I have audited the balance sheet of the Agence métropolitaine de transport (AMT) as at December 31, 2008 and the statement of operations, comprehensive income, accumulated surpluses and cash flows for the year then ended. These financial statements are the responsibility of the agency's management. My responsibility consists in expressing an opinion on these financial statements based on our audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agence as at March 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the accounting changes made to the financial statements and explained in Note 2, these principles were applied on a basis consistent with that of the preceding year.

The figures for the 2007 fiscal year, presented for comparison purposes, are drawn from financial statements audited by other auditors.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 30, 2009

AUTORITÉ DES MARCHÉS FINANCIERS
(R.S.Q., c. A-33.2)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	2009			2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
REVENUES						
Fees, contributions and premiums	73 441	12 760	86 201	72 324	12 090	84 414
Interest and short-term investment income	2 083	20	2 103	2 707	33	2 740
Interest and investment income		12 915	12 915		18 543	18 543
Other	1 584		1 584	1 268		1 268
Gouvernement du Québec contribution for tax evasion control	1 000		1 000	825		825
Administrative penalties and fines	693		693	1 232		1 232
Amounts carried forward	78 801	25 695	104 496	78 356	30 666	109 022

AUTORITÉ DES MARCHÉS FINANCIERS

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

	2009			2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
Amounts brought forward	78 801	25 695	104 496	78 356	30 666	109 022
EXPENSES						
Salaries and fringe benefits	53 317	277	53 594	51 074	437	51 511
Occupancy expenses	5 199		5 199	4 809		4 809
Professional services	10 342		10 342	9 804		9 804
Supplies, documentation and maintenance	1 593		1 593	1 465		1 465
Travel, promotion and reception	1 922	12	1 934	1 762	6	1 768
Communications, information	833	287	1 120	802	279	1 081
Telecommunications	518		518	461		461
Contribution to the Bureau de décision et de révision en valeurs mobilières	2 100		2 100	2 100		2 100
Fees related to legislation	973		973	950		950
Other	1 945	9	1 954	2 024	11	2 035
Amortization of capital assets	1 204		1 204	2 833		2 833
Amortization of start-up expenses	964		964	1 163		1 163
Administrative costs attributed to Funds (Note 3)	(1 604)	731	(873)	(1 329)	419	(910)
	79 306	1316	80 622	77 918	1152	79 070
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM	(505)	24 379	23 874	438	29 514	29 952
Education and Good Governance Fund operations (Note 4)	137		137	(889)		(889)
EXCESS (DEFICIENCY) FOR THE YEAR	(368)	24 379	24 011	(451)	29 514	29 063

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

CUMULATED SURPLUS STATEMENT
for the year ended March 31, 2009
(in thousands of dollars)

	2009			2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
OPENING BALANCE	67 425	403 462	470 887	67 876	373 948	441 824
Excess (deficiency) of revenues over expenses	(368)	24 379	24 011	(451)	29 514	29 063
CLOSING BALANCE (Notes 4 and 12)	67 057	427 841	494 898	67 425	403 462	470 887

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

BALANCE SHEET
(in thousands of dollars)

	As at March 31, 2009			As at March 31, 2008		
	Current operations	Deposit Insurance Fund	Current operations	Deposit Insurance Fund	Current operations	Deposit Insurance Fund
ASSETS						
Current assets						
Cash on hand	4 084	3	4 087	7 307	2	7 309
Short-term investments (Note 5)	49 418	65	49 483	61 637	25	61 662
Accounts receivable (Note 6)	27 897	1	27 898	13 395		13 395
Accounts receivable – Deposit Insurance- Fund	151					
Accounts receivable – Current operations					52	
Interest receivable	343	506	849	499	900	1 399
Prepaid expenses	980	1	981	810	2	812
	82 873	576	83 298	83 648	981	84 577
Accounts receivable (Note 6)	1 384		1 384	7 977		7 977
Capital assets (Note 7)	8 601	429 762	438 363		404 493	404 493
Intangible assets (Note 8)	8 182		8 182	8 226		8 226
Start-up costs (Note 9)				964		964
	<u>101 040</u>	<u>430 338</u>	<u>531 227</u>	<u>100 815</u>	<u>405 474</u>	<u>506 237</u>

AUTORITÉ DES MARCHÉS FINANCIERSBALANCE SHEET (cont'd)
(in thousands of dollars)

	As at March 31, 2009			As at March 31, 2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
LIABILITIES						
Current liabilities						
Expenses payable (Note 10)	13 016	278	13 294	12 293	4	12 297
Expenses payable – Current operations		151				
Expenses payable – Deposit Insurance Fund				52		
Refundable fees and contributions	277		277	341		341
Provision for vacation time, sick leave and severance pay (Note 11)	5 530		5 530	5 014		5 014
Deferred revenue	8 567	1 068	9 635	7 961	1 008	8 969
	27 390	1 497	28 736	25 661	1 012	26 621
Long-term portion of the provision for vacation time, sick leave and severance pay (Note 11)						
	6 120		6 120	7 413		7 413
Supplementary pension plan obligation (Note 11)						
	473		473	316		316
	33 983	1 497	35 329	33 390	1 012	34 350
NET EQUITY						
Gouvernement du Québec contribution		1 000	1 000		1 000	1 000
Cumulated surplus	67 057	427 841	494 898	67 425	403 462	470 887
	67 057	428 841	495 898	67 425	404 462	471 887
	101 040	430 338	531 227	100 815	405 474	506 237

COMMITMENTS AND CONTINGENCIES (Notes 14 and 15)

The notes are an integral part of these financial statements.

Jean St-Gelais
President-Chief Executive Officer,
Autorité des marchés financiers

Linda Levasseur
Executive Director, Administration,
Autorité des marchés financiers

AUTORITÉ DES MARCHÉS FINANCIERS

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	2009			2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
OPERATING ACTIVITIES						
Excess (deficiency) of revenues over expenses	(368)	24 379	24 011	(451)	29 514	29 063
Items not affecting cash flows						
Amortization of capital assets	1 204		1 204	2 833		2 833
Amortization of start-up costs	964		964	1 163		1 163
Loss on sale of capital assets	303		303	1		1
Loss on sale of investments		3	3			
	2 103	24 382	26 485	3 546	29 514	33 060
Change in non-cash items related to operations						
Accounts payable	(7 909)	(1)	(7 910)	(4 476)		(4 476)
Account payable – Deposit Insurance Fund	(151)					
Account payable – Current operations		52			(15)	
Interest receivable	156	394	550	745	1 009	1 754
Prepaid expenses	(170)	1	(169)	115	(1)	114
Expenses payable	(3)	274	271	1 991	3	1 994
Expenses payable – Current operations		151				
Expenses payable – Deposit Insurance Fund	(52)			15		
Refundable fees and contributions	(64)		(64)	39		39
Provision for vacation time, sick leave and severance pay	(777)		(777)	986		986
Supplementary pension plan obligation	157		157	316		316
Deferred revenue	606	60	666	307	9	316
	(8 207)	931	(7 276)	38	1 005	1 043
Cash flows related to operating activities (Amounts carried forward)	(6 104)	25 313	19 209	3 584	30 519	34 103

AUTORITÉ DES MARCHÉS FINANCIERS

STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

	As at March 31, 2009			As at March 31, 2008		
	Current operations	Deposit Insurance Fund	Total	Current operations	Deposit Insurance Fund	Total
LIABILITES						
Current liabilities						
Expenses payable (Note 10)	13 016	278	13 294	12 293	4	12 297
Expenses payable – Current operations		151				
Expenses payable – Deposit Insurance Fund				52		
Refundable fees and contributions	277		277	341		341
Provision for vacation time, sick leave and severance pay (Note 11)	5 530		5 530	5 014		5 014
Deferred revenue	8 567	1 068	9 635	7 961	1 008	8 969
	27 390	1 497	28 736	25 661	1 012	26 621
Long-term portion of the provision for vacation time, sick leave and severance pay (Note 11)						
	6 120		6 120	7 413		7 413
Supplementary pension plan obligation (Note 11)						
	473		473	316		316
	33 983	1 497	35 329	33 390	1 012	34 350
NET EQUITY						
Gouvernement du Québec contribution		1 000	1 000		1 000	1 000
Cumulated surplus	67 057	427 841	494 898	67 425	403 462	470 887
	67 057	428 841	495 898	67 425	404 462	471 887
	101 040	430 338	531 227	100 815	405 474	506 237

The notes are an integral part of these financial statements.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars, except where indicated otherwise)

1. CONSTITUTION AND MISSION

The Autorité des marchés financiers (Authority) is a legal person and a mandatary of the State created under the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2), which came into effect on February 1, 2004. Reporting to the Minister of Finance, it is funded by the various financial-sector players.

The Authority is a regulatory agency that heads the Québec financial-sector supervision system. On February 1, 2004, it replaced the Bureau des services financiers, Commission des valeurs mobilières du Québec, Fonds d'indemnisation des services financiers, Inspecteur général des institutions financières (financial institutions sector only) and Régie de l'assurance-dépôts du Québec. At this time, it acquired the rights and obligations of these entities.

The Authority's mission is:

- to assist consumers of financial products and services, in particular by setting up educational programs on financial products and services for them, processing consumer complaints, and giving consumers access to dispute-settlement services;
- to ensure that financial institutions and other regulated financial-sector entities comply with solvency standards applying to them and their legal obligations to protect the interests of consumers of financial products and services, and adopt any measure provided by law for these purposes;
- to supervise activities linked to the distribution of financial products and services, administer the rules governing eligibility for and carrying out of those activities, and adopt any measure provided by law for these purposes;
- to supervise stock market and clearing house activities and monitor the securities market, in particular by administering legal controls governing access to the public capital market, ensuring that issuers and other financial-sector practitioners comply with their legal obligations, and adopting any measure provided by law for these purposes;
- to supervise derivatives markets, including derivatives exchanges and clearing houses, and ensure that regulated entities and other derivatives market practitioners comply with the obligations imposed by law; and
- to see to the implementation of protection and compensation programs for consumers of financial products and services and administer the compensation funds set up by law.

The Authority administers the Deposit Insurance Fund. Under section 52.2 of the *Deposit Insurance Act*, any net income accumulated in the Deposit Insurance Fund must be entered as a separate item in the Authority's statements of assets and liabilities and must be reported as added to or subtracted from the Deposit Insurance Fund. In order to supply comprehensive financial information, the Authority presents the operations and other assets and liability items of the Deposit Insurance Fund separately. The purpose of this fund, set up under the *Deposit Insurance Act* (R.S.Q., c. A-26), is:

- to govern soliciting and receiving deposits of money from the public;
- to guarantee every person who deposits money with a registered institution or bank payment, on the respective maturity dates, of the deposits' principal and interest, up to \$100 000;
- to manage a deposit insurance fund;
- to administer a system of permits.

Under this Act:

- the Deposit Insurance Fund must be maintained to execute the guarantee obligation and exercise certain powers. The premiums collected by the Fund are paid into it along with any sums the Minister of Finance may, with the authorization of the Government and on such conditions as the latter may determine, pay into it from time to time;

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

1. CONSTITUTION AND MISSION (cont'd)

- when the resources of the Deposit Insurance Fund are insufficient to pay its obligations or exercise its powers, the Minister of Finance, with the authorization of the Government and under the conditions it determines, may advance money to the Deposit Insurance Fund or guarantee payment of its commitments. The total unpaid balance of these advances and guaranteed commitments may not exceed \$700 million.

The Authority is the trustee of the Fonds d'indemnisation des services financiers, a financial services compensation fund created under section 258 of the *Act respecting the distribution of financial products and services* as amended by section 424 of the *Act respecting the Autorité des marchés financiers*. This fund is assigned to paying compensation owing to victims of fraud, fraudulent tactics or embezzlement for which a firm, an independent representative or an independent partnership is responsible. Under section 274 of the *Act respecting the distribution of financial products and services*, the Authority shall keep separate books and the fund's assets are not among the Authority's assets.

Chambre de la sécurité financière and Chambre de l'assurance de dommages

In administering the Act respecting the distribution of financial products and services and to facilitate the Chambre de la sécurité financière and Chambre de l'assurance de dommages dues collection process, the Authority has, under various agreements, collects membership dues for these entities. In fiscal 2008, the Authority collected contributions of \$8 166 (2008: \$7 898) and remitted \$8 142 (2008: \$7 899) to the Chambre de la sécurité financier and collected contributions of \$4 323 (2008: \$3 768) and remitted \$3 912 (2008: \$3 818) to the Chambre de l'assurance de dommages.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Authority gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Previously, the Authority used the CICA Handbook (private sector). Changing to the Public Sector Accounting Handbook did not affect the Authority's accounting policies or results. The presentation of the previous fiscal year's financial statements was modified to reflect the change in the accounting framework. In the statement of cumulated surplus, the columns breaking down the surplus, the contingency reserve and the Education and Good Governance Fund were grouped together under "Current operations" since the detailed information is disclosed in notes. Similarly, tangible and capital assets were grouped together.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets, the provision for vacation time, sick leave and severance pay and the fair value of investments. Real results may differ from these estimates.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is lower.

Investments

Investments are recorded at cost minus any lasting decline in value.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method and the following service lives:

Computer equipment, software and computer systems development	3 years
Office furniture and equipment and leasehold improvements – facilities	5 years
Leasehold improvements– fit-ups	Remainder of lease plus a renewal option period

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

2. ACCOUNTING POLICIES (cont'd)

Capital asset depreciation

When market conditions show that a capital asset no longer contributes to the Authority's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The decline in value is posted to the statement of operations for the fiscal year in which the depreciation is determined.

Start-up costs

Start-up costs were incurred by the Bureau de transition de l'encadrement du secteur financier, which was mandated to set up the Autorité des marchés financiers. They represent primarily remuneration, professional fees and rent for Bureau de transition operations and are amortized using the straight-line method over a 5-year period ending February 1, 2009.

Proceeds reporting

Proceeds from dues and premiums

Proceeds from dues and premiums are recorded according to the period they cover. Amounts invoiced for a period exceeding the fiscal year-end are posted as deferred revenue.

Proceeds from administrative penalties and fines

Proceeds from administrative penalties and fines are posted when they are payable if it is reasonably certain that the amounts will be recovered.

Proceeds other than dues, premiums and administrative penalties and fines

Proceeds other than dues, premiums, administrative penalties and fines are recorded when the good is delivered or the service is dispensed.

Provision for Deposit Insurance Fund losses

The provision for losses on claims related to repayment of guaranteed deposits results from the subrogation of depositors' rights and interests. The provision for losses is established through case-by-case analysis and posted as soon as the losses can reasonably be evaluated. The annual change in this provision is reported in the statement of operations.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Authority lacks sufficient information to apply the accounting procedure for defined-benefit plans.

The Authority has also set up a supplemental pension plan to certain members of senior management pension benefits in addition to the basic pension benefit plan. The cost of the pension benefits accumulated by them is established by actuarial calculations using the defined-benefit method on a pro-rated basis of years of service, based on management's most probable assumptions for the expected yield of plan investments over the discount rate, wage growth rate and employee retirement age.

Cash and cash equivalents

It is the Authority's policy to present bank balances, unappropriated demand deposits and other short-term investments maturing within three months' of their acquisition date under cash and cash equivalents.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

3. ADMINISTRATIVE EXPENSES ATTRIBUTED TO THE FUNDS

The Autorité des marchés financiers made human resources, capital assets and office space available to the Deposit Insurance Fund and the Fonds d'indemnisation des services financiers. During the fiscal year, the Authority charged them \$731 (2008: \$419) and \$873 (2008: \$910) respectively for the use of these resources. These operations were concluded in the normal course of activity and measured at exchange value, in keeping with the agreement between the parties.

4. EDUCATION AND GOOD GOVERNANCE FUND

As stipulated in section 38.1 of the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2), the Authority set up the Education and Good Governance Fund (EGGF) to its credit. Operations break down as follows:

	2009	2008
Opening balance	11 260	12 149
EGGF operations:		
Investment income	112	573
Revenues from administrative penalties and fines	1 068	18
Payment of contributions	(993)	(1 413)
Salaries and fringe benefits	(47)	(59)
Other	(3)	(8)
	137	(889)
Closing balance	11 397	11 260

Among the short-term investments and Authority's investments presented in notes 5 and 7, \$11 889 at June 31, 2009 (\$11 937 in 2008) was allocated to the Education and Good Governance Fund. At March 31, 2009, the EGGF owed \$495 (\$713 in 2008) to the Authority and had \$3 (\$36 in 2008) in interest receivable from the Caisse de dépôt et placement du Québec.

The EGGF balance is included in the cumulated surplus under "Current operations".

5. SHORT-TERM INVESTMENTS

	Current operations	Deposit Insurance Fund	March 31 2009 total	Current operations	Deposit Insurance Fund	March 31 2008 total
Funds entrusted to the Caisse de dépôt et placement du Québec, at cost						
Demand deposits	440	65	505	100	25	125
Term deposits	13 000		13 000	16 600		16 600
Participation deposits	2 848		2 848	11 837		11 837
	16 288	65	16 353	28 537	25	28 562
Funds entrusted to other institutions, at cost						
Bank acceptances	15 730		15 730	25 600		25 600
Bearer term notes	17 400		17 400	7 500		7 500
	49 418	65	49 483	61 637	25	61 662

Demand deposits, term deposits, bank acceptances and bearer term notes bear interest at rates varying from 0.66% to 3.40% and mature on different dates up to March 2010. At March 31, 2009, the term deposit rate was 0.73%.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

5. SHORT-TERM INVESTMENTS (cont'd)

The market value of the term deposits entrusted to the Caisse de dépôt et placement du Québec (CDP) was \$13 034 at March 31, 2009 (\$16 645 in 2008). The market value of participation deposit units in funds entrusted to the CDP was \$2 848 at March 31, 2009 (\$11 837 in 2008). The market values of bank acceptances and bearer term notes were \$15 907 and \$17 683 respectively at March 31, 2009 (\$25 924 and \$7 500 in 2008). The fair value of demand deposits was equivalent to their book value, given that they matured in the near future.

6. ACCOUNTS RECEIVABLE

	Current operations	Deposit Insurance Fund	March 31, 2009 total	Current operations	Deposit Insurance Fund	March 31, 2008 total
Short-term portion						
Fees, contributions and premiums	20 912		20 912	4 133		4 133
Fonds d'indemnisation des services financiers				286		286
Other		1	1			
Advance to employees ¹				2		2
Advance to the Fonds d'indemnisation des services financiers ²	6 785		6 785	8 614		8 614
Gouvernement du Québec receivable						
Conseil du trésor	185		185	347		347
Ministère de l'Éducation	15		15	13		13
	<u>27 897</u>	<u>1</u>	<u>27 898</u>	<u>13 395</u>		<u>13 395</u>
Long-term portion						
Other	364		364	126		126
Advance to employees ¹	1 020		1 020	1 124		1 124
Advance to the Fonds d'indemnisation des services financiers ²				6 542		6 542
Gouvernement du Québec receivable						
Conseil du trésor				185		185
	<u>1 384</u>		<u>1 384</u>	<u>7 977</u>		<u>7 977</u>
	<u>29 281</u>	<u>1</u>	<u>29 282</u>	<u>21 372</u>		<u>21 372</u>

- 1 A 56-hour salary advance was extended to employees to allow the Authority to defer wage payment by two weeks. This advance does not bear interest and is repayable no later than the employees' departure.
- 2 Advance bearing interest at rates varying from 2.90 % to 3.60 % (2008: 4.53 % to 4.88%) depending on the one-year bank acceptance rate established using the daily rate and repayable as surplus liquid assets are released by the Fonds d'indemnisation des services financiers.

7. INVESTMENTS

	Current operations	Deposit Insurance Fund	March 31, 2009 total	Current operations	Deposit Insurance Fund	March 31, 2008 total
Funds entrusted to the Caisse de dépôt et placement du Québec						
Participation deposits	8 601	429 762	438 363		404 493	404 493
	<u>8 601</u>	<u>429 762</u>	<u>438 363</u>		<u>404 493</u>	<u>404 493</u>

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

7. INVESTMENTS (cont'd)

The market value of these participation deposits units entrusted to the CDP was \$427 646 at March 31, 2009 (\$418 563 in 2008). No decline in value was posted throughout the fiscal year, given that Authority management considers the decline in the participation deposits' market value to be temporary.

Third-party and bank ABCPs

The CDP established the participation deposits' fair value at March 31, 2009 based on the loss in its investments on Canadian asset-backed commercial paper (ABCPs) markets, which were restructured.

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called "master asset vehicles." These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on March 31, 2009, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at March 31, 2009. Based on the information available at March 31, 2009, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

7. INVESTMENTS (cont'd)

Effect on the March 31, 2009 results

For the fiscal year ended March 31, 2009, the share in expenses attributed to the Deposit Insurance Fund was \$11.2 million (\$5 million in 2008) for an investment in ABCPs, via the CDP, of \$33.0 million (\$32.5 million in 2008). This share comprises:

- the share of the \$10.7 million (\$4.8 million in 2008) unrealized loss on these securities;
- the share of the \$0.5 million (\$0.2 million in 2008) realized losses on these securities minus gains realized upon sale.

For the fiscal year ended March 31, 2009, the share in revenues attributed to the Deposit Insurance Fund for interest received on ABCPs from third parties minus the reversal of interest paid to specialized portfolios was \$0.3 million (charges of \$1.0 million from reversal of interest paid in 2008).

The estimated fair value of the CDP's ABCP investments at March 31, 2009 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the Deposit Insurance Fund.

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to the Deposit Insurance Fund is \$17.4 million (\$13.3 million in 2008).

The share in unrealized losses on ABCPs attributed to the special fund held by the Deposit Insurance Fund by the CDP's General Fund includes \$1.7 million for guarantees associated with ABCPs (\$1.0 million in 2008).

8. CAPITAL ASSETS

	At March 31 2009			At March 31 2008		
	Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Leasehold improvements – equipment	522	365	157	419	310	109
Leasehold improvements – fit-ups	7 648	2 169	5 479	7 899	3 219	4 680
Office furniture and equipment	6 898	6 017	881	6 512	5 352	1 160
Computer equipment	4 440	3 901	539	4 581	3 799	782
Software	2 533	2 207	326	2 572	2 060	512
Computer systems development ¹	4 857	4 057	800	4 609	3 626	983
	<u>26 898</u>	<u>18 716</u>	<u>8 182</u>	<u>26 592</u>	<u>18 366</u>	<u>8 226</u>

- 1 Computer systems development projects under way at March 31, 2009 totalled \$356 (2008: \$147). Amortization will begin when the projects are completed.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

9. START-UP COSTS

	At March 31 2009			At March 31 2008		
	Cost	Accumulated depreciation	Net value	Cost	Accumulated depreciation	Net value
Start-up costs	5 800	5 800		5 800	4 836	964

10. EXPENSES PAYABLE

	Current operations	Deposit Insurance Fund	March 31, 2009	Current operations	Deposit Insurance Fund	March 31, 2008
Accounts payable and accrued liabilities	4 600	278	4 878	4 633	4	4 637
Remuneration	7 019		7 019	6 574		6 574
Fonds d'indemnisation des services financiers	287		287			
Owing to the Gouvernement du Québec						
Ministère des Finances	974		974	950		950
Centres de services partagés du Québec	129		129	129		129
Ministère du Revenu	7		7	7		7
	13 016	278	13 294	12 293	4	12 297

11. FUTURE FRINGE BENEFITS**Sick leave**

The Authority has sick leave programs for its employees. The program for support staff, unionized technical staff and non-unionized staff does not allow for cumulation. The program for unionized and non-unionized professionals and certain non-unionized support and technical staff allows for cumulation, resulting in long-term obligations.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure.

Pension plans

Authority staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan for Management Personnel (PPMP), which are defined-benefit inter-enterprise plans that include guarantees on retirement and death.

The Authority's contributions posted to the results of the fiscal year totalled \$2 987 (2008: \$2 358). Its obligations towards these Government plans are restricted to its employer contributions. At January 1, 2009, the Authority's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPMP remained 10.54%.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

11. FUTURE FRINGE BENEFITS (cont'd)

Pension plans (cont'd)

The Authority's supplemental pension plan obligations consist in fully assuming benefits when the recipient retires. Consequently, no contributions are paid by either the employees or the employer, and no retirement fund has been created. The employer's obligations totalled \$473 at March 31, 2009 (2008: \$316). The Authority posted \$157 (2008: \$316) to the fiscal year's results. The significant actuarial assumptions used by the Authority to measure its accrued-benefit obligations are: the discount rate is 5.0% and the wage growth rate is 3.5%. The most recent actuarial valuation dates from November 2008.

Provision for vacation time, sick leave and severance pay

	March 31, 2009	March 31, 2008
Provision for vacation time		
Opening balance	4 892	4 311
Expenditure for the year	3 458	3 790
Benefits paid during the year	(3 280)	(3 209)
Closing balance	5 070	4 892
Provision for sick leave		
Opening balance	6 117	5 920
Expenditure for the year	635	1 754
Benefits paid during the year	(1 356)	(1 557)
Closing balance	5 396	6 117
Provision for severance pay		
Opening balance	1 418	1 209
Expenditure for the year	702	1 064
Benefits paid during the year	(936)	(855)
Closing balance	1 184	1 418
Provision for vacation time, sick leave and severance pay	11 650	12 427
Long-term portion	(6 120)	(7 413)
	5 530	5 014

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

11. FUTURE FRINGE BENEFITS (cont'd)**Obligations related to sick leave**

During the fiscal year, the Authority changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation decreased the value of the obligation by \$1319 at March 31, 2009. The effect of this change was posted prospectively to results. The basis for the long-term economic estimates and assumptions is the following, at March 31, 2009, by age group and pension plan:

	Pension plan	
	RREGOP	PPMP
Wage growth rate	0.6%	1.1%
Discount rate	2.87% to 5.49%	2.87% to 5.61%
Average remaining service period of active employees	5-31 years	5-22 years

12. CONTINGENCY RESERVE

As stipulated in section 38.3 of the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2), the Authority may also set up a contingency reserve in pursuit of its mission to cover unforeseen changes in revenues or expenses under this Act. At March 31, 2009, this reserve was \$33 530 (2008: same). It is included in the cumulated surplus under "Current operations".

13. GUARANTEED DEPOSITS

The premiums collected from registered institutions are based on the guaranteed amounts they have on deposit April 30 every year.

The deposits guaranteed on April 30, 2008 by the Deposit Insurance Fund totalled \$75.5 billion (2007: \$71.2 billion), \$13.6 billion (2007: \$12.7 billion) of which was held by trust companies or holding companies incorporated under federal legislation and for which no premium is payable.

Under an agreement with the Canada Insurance Deposit Corporation, the latter will compensate the Autorité des marchés financiers and not hold it liable for deposits guaranteed by the latter received from a trust company or holding company incorporated under federal legislation.

14. COMMITMENTS

The Authority is committed, under rental contracts expiring on various dates until 2019, to pay \$46 421 in rent for its offices and multi-function equipment. The minimum payments required for the next five years totalled \$5 735 in 2009-2010, \$5 741 in 2010-2011, \$5 538 in 2011-2012, \$5 515 in 2012-2013, \$5 366 in 2013-2014 and \$18 526 for fiscal 2014-2015 and thereafter.

Commitments related to contributions to Education and Good Governance Fund are \$679 for fiscal 2009-2010, \$529 for fiscal 2010-2011, \$126 for fiscal 2011-2012 and \$6 for fiscal 2012-2013.

15. CONTINGENCIES

The Authority is currently facing various lawsuits for damages related to its activities as a Fonds d'indemnisation des services financiers trustee. Since it is impossible to evaluate the amount it might have to pay, no provision was posted in the financial statements. The Authority believes that the outcomes of these claims will not significantly affect its financial position.

AUTORITÉ DES MARCHÉS FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars, except where indicated otherwise)

15. CONTINGENCIES (cont'd)

The Authority is committed under contracts to using Canada-wide deposit systems, via CDS Inc. (CDS), which operates the Canada-wide deposit systems SEDAR and SEDI for the Canadian Securities Commission (CSC) under contracts with the Alberta Securities Commission, the British Columbia Securities Commission, the Ontario Securities Commission (OSC) and the Autorité des marchés financiers (the CSC's main member commissions). The CDS also operates the NRD, a Canada-wide deposit system, under contracts with the main member commissions of the CSC and the Investment Dealers Association of Canada (IDA) and the Investment Industry Regulatory Organization of Canada (IIROC). Under these contracts:

If SEDAR operating costs exceed revenues (deficit), the CSC's main member commissions will pay an amount to CDS. The Authority's share of any SEDAR deficit shall not exceed 27.8%.

If SEDAR's proceeds exceed operating costs (surplus), CDS shall pay the CSC's main member commissions an amount corresponding to this surplus. The surplus may not be broken down; the CSC's main member commissions own it collectively.

CDS and the CSC's main member commissions agree to share equally discrepancies between the deposit system's real operating costs (expenses) and the budgeted operating costs.

The OSC holds \$35.2 million in trust. These monies come from cumulative surpluses and discrepancies versus expenses recorded by Canada-wide deposit systems at October 31, 2008 and interest earned on these amounts at March 31, 2009. The CSC's main member commissions agreed that they would use these amounts solely to implement measures that would benefit Canada-wide deposit system users, notably system improvement, or to offset a deficit in terms of the revenue required to pay the expenses approved in the annual operating plans. These agreements run until May 2010.

16. ADDITIONAL CASH FLOW INFORMATION

Over the fiscal year, capital assets totalling \$1 464 (2008: \$1 903) were acquired, \$884 (2008: \$158) of which are included in accounts payable at March 31, 2009. Outpayments totalling \$738 (2008: \$2 193) were made to purchase capital assets.

17. RELATED PARTY TRANSACTIONS

The following transactions belong to expenses for the fiscal year:

	March 31, 2009	March 31, 2008
Bureau de décision et de révision en valeurs mobilières	2 100	2 100
Ministère des Finances	973	950
Centre des services partagés du Québec	1 095	915
École nationale d'administration publique	2	7

In addition to the related party transactions disclosed in its statements and measured at exchange value, the Authority is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Authority did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

AUTORITÉ DES MARCHÉS FINANCIERS**MANAGEMENT'S REPORT**

The financial statements of the Autorité des marchés financiers was prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the Authority.

The Authority recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Authority's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean St-Gelais
President-Chief Executive Officer

Linda Levasseur
Executive Director, Administration

Québec, June 10, 2009

AUTORITÉ DES MARCHÉS FINANCIERS**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Autorité des marchés financiers as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Authority management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Autorité des marchés financiers as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 10, 2009

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC
(R.S.Q., c. B-1.2)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
			Total (Reclassified)
REVENUES			
Gouvernement du Québec subsidies			
Operations	\$52 179 331		\$52 179 331
Private archives	1 004 300		1 004 300
Cinémathèque	550 000		550 000
Other subsidies	10 000		10 000
Interest on long-term debt		\$8 189 130	8 189 130
Amortization of deferred subsidies (Note 16)	9 844	17 515 293	17 525 137
Ministère de l'Emploi et de la Solidarité sociale financial contribution (Note 21)	25 921		25 921
Ville de Montréal financial contribution (Note 9)	7 465 236		7 465 236
Government of Canada financial contribution			
Young Canada Works subsidy	30 000		30 000
Amortization of deferred subsidies (Note 16)	38 939		38 939
Donations	750		750
Other revenues	2 771 602		2 771 602
Investment income	928 682		928 682
Amounts carried forward	\$65 014 605	\$25 704 423	\$90 719 028
			\$89 261 470

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009

	2009			2008
	General Fund	Fund for activities funded through specific borrowings	Total	Total (Reclassified)
Amounts brought forward	\$65 014 605	\$25 704 423	\$90 719 028	\$89 261 470
EXPENSES				
Salaries and fringe benefits	38 981 496	442 728	39 424 224	36 146 541
Pay equity-related expense (Note 22)	2 113 158		2 113 158	
Professional, administrative and other services	15 329 264	656 911	15 986 175	15 118 472
Rent	4 930 168		4 930 168	4 783 626
Transportation and communications	1 941 813	1 984	1 943 797	2 247 314
Supplies	1 905 203	1 117 401	3 022 604	3 109 594
Subsidies granted to private archives	1 004 300		1 004 300	1 383 000
Subsidies granted to the Cinémathèque	550 000		550 000	550 000
Loss on sale of assets		250 420	250 420	328 452
Financial expenses (Note 17)	423 554	8 700 882	9 124 436	9 592 218
Amortization of sale assets	742 025	14 534 097	15 276 122	14 808 625
	67 920 981	25 704 423	93 625 404	88 067 842
Heritage Collection (Note 5)				
Purchases	825 055		825 055	1 512 251
	68 746 036	25 704 423	94 450 459	89 580 093
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM				
	(3 731 431)		(3 731 431)	(318 623)
Permanent decline in value of asset-backed commercial papers (Note 10)				(2 043 505)
EXCESS OF REVENUES OVER EXPENSES	\$(3 731 431)		\$(3 731 431)	\$(2 362 128)

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

CHANGE IN NET ASSETS STATEMENT
for the year ended March 31, 2009

	2009			2008
	General Fund	Fund for activities funded through specific borrowings	Total	Total
OPENING BALANCE				
Previously established balance	\$13 429 699	\$12 046 921	\$25 476 620	\$28 117 998
Adjustment for adoption of public sector accounting standards (Note 4)				(279 250)
Adjusted balance	13 429 699	12 046 921	25 476 620	27 838 748
Deficiency of revenues over expenses	(3 731 431)		(3 731 431)	(2 362 128)
CLOSING BALANCE	\$9 698 268	\$12 046 921	\$21 745 189	\$25 476 620
Net assets invested in capital assets	\$979 702	\$12 046 921	\$13 026 623	\$13 500 812
Unappropriated net assets	8 718 566		8 718 566	11 975 808
CLOSING BALANCE	\$9 698 268	\$12 046 921	\$21 745 189	\$25 476 620

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009			2008
	General Fund	Fund for activities funded through specific borrowings	Total	Total (Reclassified)
ASSETS				
Current assets				
Cash and cash equivalents (Note 6)	\$8 003 385	\$(204 709)	\$7 798 676	\$7 450 703
Gouvernement du Québec subsidies receivable (Note 7)	2 583 832	17 705 740	20 289 572	16 296 092
Accounts receivable (Note 8)	3 022 227	73 242	3 095 469	3 916 884
Interfund accounts receivable, interest-free, no terms of repayment		509 618		3 078 365
Investments (Note 10)	3 996 177	593 470	4 589 647	4 693 092
Prepaid assets	17 605 621	18 677 361	35 773 364	35 435 136
Long-term assets				
Gouvernement du Québec subsidies receivable (Note 7)		177 147 952	177 147 952	178 682 282
Investments (Note 10)	11 466 035		11 466 035	11 579 859
Capital assets (Note 11)	9 351 378	148 443 503	157 794 881	163 157 445
Deferred discount and long-term debt issuing charges	55 894	925 053	980 947	1 058 524
	<u>\$38 478 928</u>	<u>\$345 193 869</u>	<u>\$383 163 179</u>	<u>\$389 913 246</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2009

	2009			2008
	General Fund	Fund for activities funded through specific borrowings	Total	Total (Reclassified)
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	\$9 085 102	\$1 890 235	\$10 975 337	\$12 271 718
Short-term borrowings (Note 12)		6 993 115	6 993 115	11 364 309
Accrued interest payable	178 938	2 959 101	3 138 039	3 354 449
Provision for vacation time	3 401 538	22 377	3 423 915	3 272 891
Prepaid revenues				822
Interfund accounts receivable, interest-free, no terms of repayment	509 618			
Short-term portion of long-term debt (Note 13)	317 617	13 983 385	14 301 002	12 774 132
Short-term portion of obligations under capital lease contracts (Note 14)	114 169		114 169	
	<u>13 606 982</u>	<u>25 848 213</u>	<u>38 945 577</u>	<u>43 038 321</u>
Long-term liabilities				
Provision for sick leave (Note 15)	3 202 338	483	3 202 821	3 301 940
Deferred revenue	173 255		173 255	176 875
Deferred Gouvernement du Québec and Government of Canada subsidies (Note 16)	3 858 195	141 317 872	145 176 067	145 919 243
Long-term debt (Note 13)	6 987 574	165 980 380	172 967 954	172 000 247
Obligations under capital lease contracts (Note 14)	952 316		952 316	
	<u>28 780 660</u>	<u>333 146 948</u>	<u>361 417 990</u>	<u>364 436 626</u>
NET ASSETS				
	<u>9 698 268</u>	<u>12 046 921</u>	<u>21 745 189</u>	<u>25 476 620</u>
	<u>\$38 478 928</u>	<u>\$345 193 869</u>	<u>\$383 163 179</u>	<u>\$389 913 246</u>

COMMITMENTS (Note 18)**CONTINGENCIES** (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Lise Bissonnette
Anastassia Khouri

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
OPERATING ACTIVITIES			
Deficiency of revenues over expenses	\$(3 731 431)		\$(3 731 431)
Items not affecting cash flows:			
Loss on sale of assets		\$250 420	250 420
Amortization of capital assets	742 025	14 534 097	15 276 122
Amortization of deferred subsidies	(48 783)	(17 515 293)	(17 564 076)
Amortization of deferred discount and long-term debt issuing charges	2 541	143 746	146 287
Permanent decline in value of asset-backed commercial papers			2 043 505
	(3 035 648)	(2 587 030)	(5 622 678)
Change in non-cash items:			
Accounts receivable	894 657	(73 242)	821 415
Subsidies receivable	1 278 478	13 083 272	14 361 750
Prepaid expenses	199 751	(96 306)	103 445
Accounts payable and accrued liabilities	(1 654 721)	200 467	(1 454 254)
Accrued interest payable	(7 786)	(208 624)	(216 410)
Provision for vacation time	144 057	6 967	151 024
Provision for sick leave	(99 119)		(99 119)
Deferred revenue	(3 620)		(3 620)
Prepaid revenues	(822)		(822)
	(2 284 773)	10 325 504	8 040 731
			12 538 512
INVESTMENT ACTIVITIES (Note 20)			
Proceeds from sale (acquisition) of investments	3 192 189		3 192 189
Purchase of capital assets	(138 061)	(8 707 599)	(8 845 660)
	3 054 128	(8 707 599)	(5 653 471)
			(27 097 636)
FINANCING ACTIVITIES			
Decrease in short-term borrowings		(4 371 194)	(4 371 194)
Increase in long-term debt		15 268 709	15 268 709
Long-term debt repayment	(317 617)	(12 456 515)	(12 774 132)
Increase in deferred discount and long-term debt issuing charges		(68 710)	(68 710)
Reimbursement of obligations under capital lease contracts	(93 960)		(93 960)
	(411 577)	(1 627 710)	(2 039 287)
			215 776
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
(amounts carried forward)	\$357 778	\$(9 805)	\$347 973
			\$(14 343 348)

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBECSTATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2009

	2009			2008
	General Fund	Fund for activities funded through specific borrowings	Total	Total
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (amounts brought forward)	\$357 778	\$(9 805)	\$347 973	\$(14 343 348)
OPENING CASH AND CASH EQUIVALENTS	6 528 898	921 805	7 450 703	21 794 051
Change in interfund receivables	<u>1 116 709</u>	<u>(1 116 709)</u>	<u> </u>	<u> </u>
CLOSING CASH AND CASH EQUIVALENTS (Note 6)	<u><u>\$8 003 385</u></u>	<u><u>\$(204 709)</u></u>	<u><u>\$7 798 676</u></u>	<u><u>\$7 450 703</u></u>

See Note 20 for further cash flow information.

The notes are an integral part of these financial statements.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. CONSTITUTION AND PURPOSE

The Bibliothèque et Archives nationales du Québec was created under the *Act respecting the Bibliothèque et Archives nationales du Québec* (R.S.Q., c. B-1.2) to offer democratic access to culture and knowledge and act as a catalyst for Québec documentary institutions. It also assembles, preserves and disseminates Québec's published documentary heritage constituted by its collections together with any related document of cultural interest, and documents relating to Québec that are published outside Québec.

The Bibliothèque et Archives nationales' mission includes guiding, supporting and advising public bodies on the management of their documents, ensuring the preservation of public archives, facilitating access to them and fostering their dissemination. It is also responsible for promoting the preservation and accessibility of private archives.

Under section 2 of its incorporating act, the Bibliothèque et Archives nationales is a mandatary of the State and, as such, does not pay Québec or Canadian income tax.

2. PURPOSE OF THE FUNDS

The Operating Fund discloses the Bibliothèque et Archives nationales du Québec's current operations, assets, liabilities, revenues and parking lot operation expenses as well as and the networking of public libraries into a union catalogue permitting interlibrary loans and the implementation of single window document processing.

The Fund for activities funded through specific borrowings authorized by the Gouvernement du Québec discloses the assets, liabilities and operations related to Government asset maintenance programs, assets, liabilities and operations that are pre-requisite and necessary to opening the Grande Bibliothèque to the public.

3. ACCOUNTING POLICIES

Management's responsibility and accounting methods

To prepare its financial statements, the Bibliothèque et Archives nationales gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main items for which management established estimates and assumptions are the provision for sick leave, the provision for pay equity, the capital assets' service life, evaluation of library documents withdrawn from circulation and measurement of investments in asset-backed commercial papers. Real results may differ from these estimates.

Subsidies

The Bibliothèque et Archives nationales uses the deferral method to record subsidies. Subsidies are posted when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain. Unappropriated subsidies are posted to the Operating Fund as fiscal year revenues. Appropriated subsidies are recorded as revenues from the appropriate fund during the fiscal year in which the related expenditures were incurred.

Subsidies receivable for capital assets and their maintenance and for specific projects linked to Grande Bibliothèque start-up are recorded during the fiscal year in which the Bibliothèque et Archives nationales du Québec incurred the expenses and obtained the funding entitling it to these subsidies.

Subsidies for non-amortizable capital assets are recorded in the change in net assets statement.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

3. ACCOUNTING POLICIES (cont'd)**Other revenue**

Other revenue is generated by parking, sales and dispensing of various services and is reported when the following conditions are met:

- There is convincing proof that an agreement exists;
- Delivery has occurred or services have been dispensed;
- The selling price has been or can be determined;
- Recovery is reasonably certain.

Investment income

Investment operations are posted on the date of the operation and the resulting revenues are posted using the accrual method. Interest income is posted according to the number of days the investment is held in the fiscal year.

Cash and cash equivalents

It is the Bibliothèque et Archives nationales' policy to present bank balances and investments, including bank overdrafts whose balances often fluctuate between overdrawn and available, that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Short-term investments

Short-term investments are recorded at cost or net realization value, whichever is lower.

Long-term investments

Long-term investments are posted at their acquisition value. Any permanent decline in value is reduced by the investments' book value and the loss is posted to the fiscal year's results.

Collections

Library documents are intended for loan or regular consultation and are capital assets. Given their specific nature, heritage collection documents, described in Note 5, are not included under capital assets or recorded in the balance sheet. Heritage documents purchased are charged to operations for the current fiscal year. Heritage documents acquired through donations, whose value is determined by experts and, when required, sanctioned by the Canadian Government's Canadian Cultural Property Commission or the Conseil national d'évaluation des archives, are also charged to operations for the current fiscal year. Donations not subject to an expert opinion and heritage documents acquired by legal deposit and donations without receipts are not recorded in the financial statements due to their zero cost.

Capital assets

Capital assets are recorded at cost. Land is not amortized. Other capital assets are amortized using the straight-line method over their estimated service life according to the date they were used.

The capital assets' cost includes the purchase price, installation costs and financing costs related to their acquisition until the date they become operational. Amortization of these capital assets begins when they are used.

When the situation indicates that a capital asset no longer contributes to the Bibliothèque et Archives nationales' capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its book value, its cost is reduced to reflect this decline. Net capital asset-related losses are posted to results until the depreciation is determined.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

3. ACCOUNTING POLICIES (cont'd)

Fit-ups leased under a capital-lease contract

The rental contracts to which the Bibliothèque et Archives nationales du Québec is a party, as lessee, and under which virtually all property-related advantages and risks are transferred to it, are posted as capital-lease contracts and included under capital assets and obligations resulting from capital-lease contracts. The cost posted under capital-lease contracts represents the actualized value of the minimum amounts payable under the lease. The amortization of these capital assets is calculated using the same method as the other capital assets.

All other rental contracts are posted as operating-lease contracts and the resulting rental costs are posted to expenses in the fiscal year they arise.

Deferred discount and long-term debt issuing charges

The discount and long-term debt issuing charges are deferred and amortized using the straight-line method over the initial term of the borrowing.

Fringe benefits

Inter-employer pension plan

The accounting procedure used for defined-contribution plans is applied to inter-employer Government defined-benefit plans, given that the Bibliothèque et Archives nationales lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

4. ACCOUNTING CHANGES

Since April 1, 2008, to prepare its financial statements, the Bibliothèque et Archives nationales gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked.

Capital assets

Under the public-sector standards, works of art are not capitalized. Previously, they were presented as capital assets. The retroactive application of this change reduced the following items in the financial statements:

	<u>2008</u>
Balance sheet	
Capital assets	\$(279 250)
Net assets nets	(279 250)

According to the CICA Public Sector Accounting Handbook, the software and software packages developed are considered capital assets. Previously, they were posted to intangible assets. The Bibliothèque et Archives nationales reclassified them without affecting their measurement.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

4. ACCOUNTING CHANGES (cont'd)

Services received under service agreements and gifts related to the heritage collection

Following adoption of the public-sector standards, non-monetary operations are no longer reported. Previously, the Bibliothèque et Archives nationales du Québec had to report services received under service agreements at book value. An equivalent amount was posted to revenues and expenses with zero impact on results. Moreover, gifts related to the heritage collection are not reported in the financial statements, given their zero cost to the Bibliothèque et Archives nationales. Previously, the heritage documents acquired through donations, and whose value was determined by experts, were posted to revenues and expenses with zero impact on results. The Bibliothèque et Archives nationales has chosen to disclose the value of the gifts through a note (Note 5). The retroactive application of this change reduced the following items in the financial statements:

	<u>2008</u>
Revenues	
Services received under service agreements	\$(283 720)
Gifts related to the heritage collection	(1 367 430)
Expenses	
Professional, administrative and other services	(278 720)
Rent	(5 000)
Heritage collection gifts	(1 367 430)

5. HERITAGE COLLECTION

The Bibliothèque et Archives nationales du Québec heritage collection comprises the following categories of documents: general collections of books, journals and reviews, including all documents published in Québec received since 1968 by legal deposit and documents published in Québec since 1764, foreign documents related to Québec and foreign documents with heritage value, these latter three categories having been acquired through purchases, donations or exchanges; special collections, so designated to reflect their rarity, their material support or format, notably including rare and old books, prints, artists' books, soundtracks, posters, performance programs, postcards, sheet music and maps; electronic publications. The heritage collection is enriched by cinematographic and television documents submitted for legal deposit.

Its also includes the archives of government departments and agencies since the French Regime, legal (1644-1985) and civil archives (register of civil status, notarized acts, land surveyors registry offices); private archives (individuals, families, companies, industries, businesses, etc.), and photographs, drawings and caricatures, engravings, maps and plans, aerial photographs, architectural documents, films and videos, tapes, records and other pieces.

These heritage documents are of cultural and historical value. They are assembled for permanent safekeeping and dissemination. As a result, they are cared for so as to preserve them and special procedures govern their consultation by the public.

The value of the heritage documents acquired by the Bibliothèque et Archives nationales through donations, and whose value was determined by experts and, if applicable, sanctioned by the Canadian Cultural Property Review Export Review Board or the Conseil national d'évaluations des archives, was \$2 145 891 (\$1 367 430 in 2008).

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**6. CASH AND CASH EQUIVALENTS**

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
Cash on hand	\$3 003 385	\$(204 709)	\$2 798 676
Investments that are easily convertible in the short term	5 000 000		5 000 000
	<u>\$8 003 385</u>	<u>\$(204 709)</u>	<u>\$7 798 676</u>
			<u>\$7 450 703</u>

At March 31, 2009, short-term investments comprised a bank acceptance at a fixed interest rate of 0.66%. This bank acceptance matures in the coming fiscal year.

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

In the General Fund, Gouvernement du Québec short-term subsidies receivable correspond to subsidies granted the Bibliothèque nationale du Québec but not yet paid. In the Fund for activities funded through specific borrowings authorized by the Government, short-term subsidies receivable correspond to interest accrued on the long-term debt and capital repayment on the long-term debt to be made in the next fiscal year. Long-term subsidies receivable represent all Gouvernement du Québec commitments related to capital assets and their maintenance and specific projects related to the Grande Bibliothèque start-up, minus long-term debt capital repayments made or to be made in the next fiscal year.

8. ACCOUNTS RECEIVABLE

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
			Total
Ville de Montréal	\$1 614 532		\$1 614 532
Secrétariat du Conseil du trésor	590 642		590 642
Other accounts	817 053	\$73 242	890 295
	<u>\$3 022 227</u>	<u>\$73 242</u>	<u>\$3 095 469</u>
			<u>\$3 916 884</u>

9. VILLE DE MONTRÉAL FINANCIAL CONTRIBUTION

On January 26, 2004, the Bibliothèque nationale du Québec signed a framework agreement with the Ville de Montréal and the Minister of Culture and Communications regarding the Bibliothèque nationale's purchase of the Bibliothèque Centrale de Montréal collection, related material resources, the collection's preservation and enrichment and its documentary processing. This agreement also provided for secondment of Ville de Montréal employees.

The Ville de Montréal makes a financial contribution of \$7 million indexed annually to Bibliothèque et Archives nationales du Québec operations. The amount paid by the Ville de Montréal corresponds to the amount of this contribution after deduction of the wages and fringe benefits of the employees it seconded to the Bibliothèque et Archives nationales du Québec. This five-year agreement was renewed in 2009 for another five-year period. For the fiscal year ending March 31, 2009 a prorated amount of \$7 465 236 (2008: \$7 312 075) was calculated and recorded as the Ville de Montréal's financial contribution.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**10. INVESTMENTS**

At March 31, 2009, the Bibliothèque et Archives nationales held two investments on Canadian asset-backed commercial paper (ABCP) market, whose assets were subject to restructuring. These investments fall into two categories:

- “Third-party ABCPs” which underwent restructuring under the Pan-Canadian Investors Committee restructuring agreement (Rocket Trust converted to Master Asset Vehicle II in January 2009);
- “Bank-sponsored ABCPs”, which, when the securities matured in 2008, had to be restructured during the fiscal year (Superior Trust).

ABCPs are short-term financial instruments issued by trusts (also called “conduits”) generally for terms of one to three months. ABCPs are short-term debts backed by various financial instruments, such as mortgages or consumer debts. When acquired by the Bibliothèque et Archives nationales, the ABCPs it holds were rated R-1 (high) by the rating agency DBRS Limited (DBRS), which is the DBRS’ highest rating for asset-backed commercial papers.

Third-party ABCPs

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in mid-August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCP, whose face value was \$8 000 000, when it matures.

The third-party ABCP restructuring efforts undertaken since August 13, 2007 resulted in an agreement being signed on December 24, 2008, which was then subject to the approval of the decision-making authorities of the institutions concerned and obtaining orders-in-council. The agreement was then ratified in the form proposed and resulted in an exchange of securities on January 21, 2009.

The important events enabling this restructuring began with a moratorium and discussions in the context of the Montréal proposal and then the Pan-Canadian Investors Committee. Investors and financial institutions agreed not to put the conduits in default so as to avoid forced sale of receivables and the underlying financial assets. On December 23, 2007, the Pan-Canadian Investors Committee, composed by Montréal Accord participants, approved a draft agreement to restructure the trusts targeted by the Montréal Accord. On April 25, 2008, 96% of note holders (in terms of number and value) voted in favour of the proposed restructuring plan, which was ratified by the Ontario Superior Court of Justice on June 5, 2008. The ruling was then appealed by a group of ABCP note holders wishing to contest the plan’s implementation. On August 18, 2008, the Ontario Superior Court confirmed the Ontario Superior Court of Justice’s ruling. On September 19, 2008, the Supreme Court of Canada quashed this appeal.

On December 24, 2008, the Pan-Canadian Investors Committee and banks purchasing credit protection measures signed a final restructuring agreement that was ratified in January 2009 after obtaining the authorizations and orders-in-council required. The main objective of this proposal was to replace third-party ABCPs by new structures in the form of trusts, called “master asset vehicles” (“MAV I”, “MAV II”, “MAV III”). The key aspects of the final agreement are as follows: creation of new securities whose term resembles that of the underlying assets, regrouping of transactions of conduits of ABCP comprising solely synthetic or hybrid assets, and establishment of margin funding facilities to support MAV I and MAV II so as to fund potential security calls.

In exchange for its Rocket Trust securities, the Bibliothèque et Archives nationales received the following notes issued by MAV II:

MAV II, Class A1 notes	\$7 167 200
MAV II, Class A2 notes	424 880
MAV II, Class B notes	77 128
MAV II, Class C notes	237 192
	<u>\$7 906 400</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**10. INVESTMENTS (cont'd)****Third-party ABCPs (cont'd)**

The main difference between MAV I and MAV II is the fact that MAV I participants fund the margin funding facility, which is supplied by third-party lenders for MAV II. Based on this distinction, the interest paid to MAV II note holders is lower than MAV I note holders. On January 21, 2009, DBRS issued a final rating report for Class A1 and A2 notes issued by MAV II, confirming the preliminary A ratings issued on December 29, 2008. The notes are expected to be repaid on December 20, 2016, notwithstanding advance or late repayment under certain circumstances or based on certain factors.

Bank-sponsored ABCP

In June 2008, the Bibliothèque et Archives nationales exchanged its Superior Trust series A notes (\$8 795 329) for Superior Trust series B notes (\$5 603 140) and cash (\$3 192 189 plus interest). The purpose of this transaction was to avoid liquidating the assets underlying series A, whose market value was virtually zero. Series B notes were initially rated AAA by DBRS.

Due to market movement, the trusts sponsored by financial institutions, including Superior Trust, were faced with significant collateral calls from those purchasing credit protection measures. Consequently, the notes issued by these trusts were restructured in 2008. When markets closed on December 3, 2008, the deterioration of yield discrepancies associated with corporate credits caused Series B notes to reach “negative gap trigger” status. This presaged the growing possibility of attaining “market value evaluation trigger” status. Had this occurred, Superior Trust Series B note holders would have had to supply liquid assets to cover the margin call that would have resulted from this measurement at market value.

To eliminate the operational risks linked to the occurrence of this event during the holiday period, a proposal was made to Series B note holders. The Bibliothèque et Archives nationales chose the option that involved restructuring the financial assets since it offered protection from the increasingly probable possibility of margin call and avoided injecting new funds into this investment. Consequently, the Bibliothèque et Archives nationales exchanged its Series B notes for Series E notes. The DBRS rating was AA on the date the financial statements were prepared. The securities and related commitments mature no later than September 28, 2016.

The Bibliothèque et Archives nationales reports its investments at cost minus any permanent decline in value. Management deems that, at March 31, 2009, these investments had not suffered any additional permanent decline in value from that of \$2 043 505 observed March 31, 2008. This permanent decline in value was established using the information available on the date the financial statements were prepared and management assessed the financial market situation. Consequently, the decline in value disclosed could vary significantly over subsequent periods. The book value of investments equals their fair value and details as follows:

	Acquisition cost	Permanent decline in value	Book value
Third-party ABCPs restructured under the ABCP Pan-Canadian Investors Committee	\$7 906 400	\$(1 185 960)	\$6 720 440
Restructured bank ABCPs	5 603 140	(857 545)	4 745 595
Long-term investments	<u>\$13 509 540</u>	<u>\$(2 043 505)</u>	<u>\$11 466 035</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**11. ASSETS**

	2009		
	GENERAL FUND		
	Service life	Cost	Accumulated depreciation
Land			
Property improvements	10 years	\$1 536	\$(574)
Building	40 years	70 884	(7 821)
Building improvements	20 years	74 814	(10 339)
Parking	40 years	7 786 728	(708 631)
Office furniture and equipment	10 years	1 330 615	(904 736)
Computer and telecommunication equipment	3 to 10 years	1 700 543	(1 446 911)
Software programs developed ¹	3 to 5 years	434 731	(253 997)
Other equipment	5 years	551 415	(401 676)
Rolling stock	5 years	2 354	(1 898)
Library documents	3 to 10 years	176 377	(91 354)
Bookbinding costs	10 years		
Subtotal		12 129 997	(3 827 937)
Layouts leased under capital lease contracts		1 160 444	(111 126)
Total		\$13 290 441	\$(3 939 063)

1 In-house software development (capitalized value: \$296 658) was under was at March 31, 2009 (\$292 978 at March 31, 2008) and were not amortized.

The capital assets' total cost and total cumulated amortization at March 31, 2009 was \$216 185 570 and \$58 390 689 respectively (\$206 497 071 and \$43 339 626 at March 31, 2008). The net value of capital assets was \$157 794 881 at March 31, 2009 (\$163 157 445 at March 31, 2008).

12. SHORT-TERM BORROWINGS

The Bibliothèque et Archives nationales is authorized under a Gouvernement du Québec order-in-council to set up a borrowing plan allowing it to borrow in the short term or on a credit line from financial institutions or the Minister of Finance, as Financing Fund manager, or incur long-term borrowings from the Minister of Finance, as Financing Fund manager, up to a total of \$62 276 055 for the following purposes:

	2009
Start-up of Grande Bibliothèque activities	\$3 030 000
Asset maintenance ¹	46 056 000
Layout of additional storage locations at the Centre d'archives de Québec	578 175
Cultural display	2 611 880
Credit line	10 000 000
	<u>\$62 276 055</u>

1 The \$46 056 000 includes \$15 352 000 that made it possible to issue a new long-term note during the fiscal year ending on March 31, 2009.

GENERAL FUND	2009			2008
	FUND FOR ACTIVITIES FUNDED THROUGH SPECIFIC BORROWINGS			TOTAL
Net value	Cost	Accumulated depreciation	Net value	Net value
	\$10 592 863		\$10 592 863	\$10 592 863
\$962	6 326	\$(3 286)	3 040	4 786
63 063	92 605 630	(10 391 300)	82 214 330	84 201 108
64 475	1 443 129	(129 814)	1 313 315	756 667
7 078 097				7 272 765
425 879	7 819 241	(3 050 749)	4 768 492	4 799 947
253 632	10 024 276	(6 899 023)	3 125 253	4 362 788
180 734	13 659 245	(8 226 124)	5 433 121	7 315 670
149 739	2 908 067	(1 954 944)	953 123	1 571 437
456	32 484	(26 913)	5 571	12 914
85 023	60 456 247	(22 780 815)	37 675 432	40 017 838
	3 347 621	(988 658)	2 358 963	2 248 662
8 302 060	202 895 129	(54 451 626)	148 443 503	163 157 445
1 049 318				
\$9 351 378	\$202 895 129	\$(54 451 626)	\$148 443 503	\$163 157 445

12. SHORT-TERM BORROWINGS (cont'd)

The Gouvernement du Québec committed to paying the Bibliothèque et Archives nationales the amounts required to make up for the failure to carry out its obligations, should it be unable to meet them for one of its short-term borrowings. The amounts withdrawn bear interest at the average one-month bank acceptance rates plus 0.3%. At March 31, 2009, the interest rate for short-term borrowings was 0.94571% (3.91429% at March 31, 2008) and the balance of these borrowings breaks down as follows:

	2009	2008
Borrowing on credit line from the Gouvernement du Québec's Financing Fund		
Fund for activities funded through specific borrowings		
Start-up of Grande Bibliothèque operations		
Land, building construction and equipment and furniture acquisition	\$1 568 090	\$384 824
Asset maintenance	5 425 025	10 979 485
	<u>\$6 993 115</u>	<u>\$11 364 309</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

13. LONG-TERM DEBT

	2009	2008
Borrowings on a note from the Gouvernement du Québec Financing Fund		
Fund for activities funded through specific borrowings		
• 4.598% (effective rate of 4.646%), repayable in annual instalments of \$689 363 until October 1, 2012 and a final instalment of \$6 204 265 on October 1, 2013	\$8 961 716	\$9 651 080
• 4.531% (effective rate of 4.581%), repayable in annual instalments of \$21 371 until January 5, 2012	64 112	85 484
• 6.296% (effective rate of 6.392%), repayable in annual instalments of \$27 036 until June 28, 2009 and a final instalment of \$189 251 on June 28, 2010	216 287	243 322
• 5.169% (effective rate of 5.231%), repayable in annual instalments of \$69 075 until October 1, 2013	345 376	414 451
• 4.932% (effective rate of 4.991%), repayable in annual instalments of \$3 524 673 until October 1, 2013	17 623 364	21 148 036
• 4.816% (effective rate of 4.870%), repayable in annual instalments of \$43 404 until December 1, 2014 and an instalment of \$260 423 on December 1, 2015	520 846	564 250
• 4.411% (effective rate of 4.456%), repayable in annual instalments of \$28 164 until May 14, 2016 and a final instalment of \$140 819 on May 14, 2017	366 130	394 294
• 4.411% (effective rate of 4.457%), repayable in annual instalments of \$851 414 until May 14, 2017	7 662 730	8 514 145
• 2.726% (effective rate of 2.743%), repayable in annual instalments of \$1 526 871 until October 1, 2012 and a final instalment of \$9 161 226 on October 1, 2013	15 268 709	
• 4.816% (effective rate of 4.869%), repayable in annual instalments of \$1 465 234 until December 1, 2015	10 256 641	11 721 875
• 4.816% (effective rate of 4.870%), repayable in annual instalments of \$2 570 775 until December 1, 2014 and an instalment of \$79 694 018 on December 1, 2015	95 118 667	97 689 441
• 4.2739% (effective rate of 4.314%), repayable in annual instalments of \$1 787 924 until December 1, 2015	12 515 465	14 303 389
• 4.559% (effective rate of 4.608%), repayable in annual instalments of \$1 368 550 until October 1, 2012 and an instalment of \$5 474 200 on October 1, 2013	10 948 400	12 316 950
• 4.475% (effective rate of 4.524%), repayable in annual instalments of \$9 532 until May 18, 2018	95 322	104 854
Subtotal	179 963 765	177 151 571
General Fund		
• 4.926% (effective rate of 4.984%), repayable in annual instalments of \$317 617 until April 1, 2031	7 305 191	7 622 808
Subtotal	7 305 191	7 622 808
Total	187 268 956	184 774 379
Instalments due within one year	(14 301 002)	(12 774 132)
	<u>\$172 967 954</u>	<u>\$172 000 247</u>

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**13. LONG-TERM DEBT** (cont'd)

Repayment of capital and interest on borrowings from the Fund for activities funded through specific borrowings are guaranteed by purchase-money security interest on each of the subsidies granted to the Bibliothèque et Archives nationales du Québec by the Minister of Culture, Communications and the Status of Women as the capital and interest on long-term borrowings become due and payable in keeping with the terms of each agreement. Payments made as subsidies are forwarded directly to the Financing Fund.

To repay the capital and interest on long-term borrowings by the General Fund, the Gouvernement du Québec committed to paying the Bibliothèque et Archives nationales du Québec the amounts required to supplement the failure to meet its obligations, should the latter be unable to do so for this borrowing.

Capital payments on short-term borrowings over the next five fiscal years are:

2010	\$14 301 002
2011	14 463 218
2012	14 273 967
2013	14 252 596
2014	31 507 503

14. OBLIGATIONS UNDER CAPITAL LEASE CONTRACTS

	2009	2008
Obligations related to rental of layouts from the Société immobilière du Québec		
General Fund		
• 4.48% (effective rate of 4.573%) repayable in monthly instalments of \$1 620.74 until June 30, 2009 including capitalized monthly interest	\$4 844	
• 4.70% (effective rate of 4.803%) repayable in monthly instalments of \$1 499.07 until December 31, 2011 including capitalized monthly interest	46 503	
• 4.48% (effective rate of 4.573%) repayable in monthly instalments of \$1 909.14 until October 31, 2012 including capitalized monthly interest	75 994	
• 4.28% (effective rate of 4.365%) repayable in monthly instalments of \$961.52 until August 31, 2013 including capitalized monthly interest	46 524	
• 4.60% (effective rate of 4.698%) repayable in monthly instalments of \$2 343.68 until March 31, 2014 including capitalized monthly interest	125 889	
• 4.28% (effective rate of 4.365%) repayable in monthly instalments of \$6 026.96 until April 30, 2023 including capitalized monthly interest	766 731	
	1 066 485	
Instalments due within one year	(114 169)	
	<u>\$952 316</u>	

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

14. OBLIGATIONS UNDER CAPITAL LEASE CONTRACTS (cont'd)

The payments for obligations under leases in subsequent contracts details as follows:

	Principal	Interest	Total
2010	\$114 169	\$43 578	\$157 747
2011	117 469	38 787	156 256
2012	114 809	33 578	148 387
2013	96 387	28 962	125 349
2014	80 137	25 118	105 255
2015 and thereafter	543 514	113 425	656 939

15. FRINGE BENEFITS**Pension plans**

Bibliothèque et Archives nationales staff participates in the Government and Public Employees Retirement Plan (RREGOP), Retirement Plan for Senior Officials (RPSO), Pension Plan for Federal Employees transferred to employment with the Gouvernement du Québec (PPFEO), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CCSP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Bibliothèque et Archives nationales' contributions charged to the year-end statement totalled \$1 731 741 (2008: \$1 392 842). Its liability towards these Government plans is restricted to its employer contributions. At January 1, 2008, the Bibliothèque et Archives nationales' RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP and RPSO from 7.78% to 10.54%. The PPFEO and CCSP contribution rate remained unchanged.

Provision for sick leave

During the fiscal year, the Bibliothèque et Archives nationales changed the method it uses to measure its obligations related to accumulated sick leave. Henceforth, these obligations will be measured using an actuarial method based on defined benefit breakdown. This change in accounting estimate increased the value of the obligation by \$139 320 at April 1, 2008. The impact of this change was posted prospectively to the fiscal year's results.

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
Opening balance	\$3 301 457	\$483	\$3 301 940
Annual expenses	937 528		937 528
Benefits paid	(1 036 647)		(1 036 647)
Closing balance	\$3 202 338	\$483	\$3 202 821

Description

The Bibliothèque et Archives nationales has a sick leave accumulation program, which results in long-term obligations whose cost it bears in their entirety. This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure payment.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**15. FRINGE BENEFITS (cont'd)****Description (cont'd)**

Obligations under the sick leave accumulation program increase as Bibliothèque et Archives nationales employees render services to it. The value of these obligations is established using a method that breaks down the program's cost over the employee's working career.

Valuation and subsequent estimations

The sick leave accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

	Indexation rate	Discount rate	Average remaining duration of activity for active wage-earners
RREGOP	2%	2.53% to 5.61%	4 to 23 years
RRPE and RREFQ	2%	1.59% to 5.26%	2 to 14 years

Provision for vacation time

Actualization calculations for provisions for vacation time are not deemed necessary since the Bibliothèque et Archives nationales deems that vacation time accumulated will be taken the following fiscal year.

16. DEFERRED GOUVERNEMENT DU QUÉBEC AND GOVERNMENT OF CANADA SUBSIDIES

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
Opening balance	\$44 668	\$145 874 575	\$145 919 243
Increase in Gouvernement du Québec and Government of Canada commitments	3 862 310	12 958 590	16 820 900
Amortization for the fiscal year	(48 783)	(17 515 293)	(17 564 076)
Closing balance	<u>\$3 858 195</u>	<u>\$141 317 872</u>	<u>\$145 176 067</u>

17. FINANCIAL EXPENSES

	2009		2008
	General Fund	Fund for activities funded through specific borrowings	Total
Interest and bank charges	\$21 708	\$(7 742)	\$13 966
Interest on short-term borrowings		375 748	375 748
Interest on long-term debt and obligations under capital lease contracts	399 305	8 189 130	8 588 435
Amortization of the deferred discount and long-term debt issuing charges	<u>2 541</u>	<u>143 746</u>	<u>146 287</u>
	<u>\$423 554</u>	<u>\$8 700 882</u>	<u>\$9 124 436</u>

Capitalized interest-free on capital assets in the fiscal year ended March 31, 2009 (2008: \$4 324).

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

18. COMMITMENTS

The Bibliothèque et Archives nationales du Québec committed to paying amounts under service contracts expiring on various dates up to March 31, 2011. Minimum future payments under these contracts are \$678 920 for the fiscal year ending March 31, 2009 and \$8 800 for the fiscal year ending March 31, 2010.

In addition to the capital lease contracts described in Note 14, the Bibliothèque et Archives nationales made commitments under occupancy agreements with no expiry date with the Société immobilière for office rental. For the fiscal year ended March 31, 2009, the cost of these capital lease contracts totalled \$4 292 502 (\$4 499 641 in 2008). For the fiscal year ended March 31, 2010, this cost will total \$4 372 953.

The Bibliothèque et Archives nationales also signed a lease with the Société immobilière du Québec for the rental of an archival document storage centre. This 20-year lease expires on September 30, 2028 and the monthly rent is adjusted according to the terms and conditions of the lease. For the fiscal year ended March 31, 2009, the yearly cost of this lease was \$339 831. For fiscal 2009-2010, it will be \$676 893.

The Bibliothèque et Archives nationales is authorized by order-in-council to spend a balance of \$330 773 (\$858 394 in March 31, 2008) for Grande Bibliothèque start-up activities.

The Bibliothèque et Archives nationales offers bursaries totalling \$110 000, \$68 825 of which has been allocated and will be paid in 2009-2010 to support research on the Bibliothèque et Archives nationales' heritage collections and certain selected subjects.

19. CONTINGENCIES

- The contractor for lot 3 of the construction decree, Axor Construction Canada Inc., failed to sign its contract in keeping with the tender submitted and the commitments made, alleging that calls for tender conditions were breached. It is suing the Bibliothèque et Archives nationales for \$3 405 034 plus interest plus the additional compensation provided for in the Québec Civil Code. The Bibliothèque et Archives nationales du Québec is suing Axor Construction Canada Inc. and London Guarantee Life Insurance Co., solidarily, for \$2 095 000 plus interest plus the additional compensation provided for in the Québec Civil Code and Axor Construction Canada Inc., alone, for \$235 156 plus interest plus the additional compensation provided for in the Québec Civil Code plus extrajudicial costs incurred. Axor Construction Canada Inc. or the Bibliothèque et Archives nationales du Québec are being sued by Recouvrements métalliques Bussièrès Ltée for \$1 000 000 plus interest plus the compensation provided for in the Québec Civil Code and expenses, given that the contract between Axor Construction Canada Inc. and the Bibliothèque et Archives nationales du Québec was not ratified.
- Jean-Pierre Pepin, genealogist, tabled a request for an injunction and a claim for damages and interest totalling approximately \$425 000 plus other amounts to be determined, with interest, the additional compensation provided for in the Civil Code of Québec and honoraria and extrajudicial disbursements incurred against the Bibliothèque et Archives nationales du Québec for violation of intellectual property rights in the Fonds Drouin following the acquisition of the collections of the Bibliothèque centrale de Montréal de la Ville de Montréal. The Bibliothèque et Archives nationales du Québec is contesting and has called the Ville de Montréal as a surety.

Since it is impossible to reasonably foresee the outcome of these proceedings, no provision has been entered in the books.

20. ADDITIONAL INFORMATION CONCERNING CASH FLOWS

	2009	2008
a) Interest paid	<u>\$9 194 557</u>	<u>\$9 403 597</u>
b) Operations not affecting cash flows related to investment activities		
Capital asset purchases financed from accounts payable	<u>\$286 987</u>	<u>\$117 114</u>

During the fiscal year, capital asset acquisitions totalled \$10 006 105, \$1 160 444 (2008: no acquisition) of which was acquired under capital lease contracts.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in the financial statements and posted at exchange value, the Bibliothèque et Archives nationales is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. With the exception of the transactions mentioned below, the Bibliothèque et Archives nationales did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

When the Bibliothèque nationale du Québec and the Archives nationales du Québec merged on January 31, 2006, the Bibliothèque et Archives nationales du Québec acquired the rights and assumed the obligations of the Archives nationales du Québec. The Bibliothèque et Archives nationales posted a Ministère de la Culture et des Communications account payable corresponding to the amount of the net book value of the assets transferred and certain expenses repayable to the Department. At March 31, 2009, the accounts payable and accrued liabilities included the balance owing to the Department for \$244 432 (\$343 225 at March 31, 2008). The Bibliothèque et Archives nationales also posted a Secrétariat du Conseil du trésor account receivable corresponding to the provision for vacation pay and sick leave for the employees transferred. At March 31, 2009, accounts receivable included \$590 642 (\$880 994 at March 31, 2008) for sick leave.

On March 31, 2005, the Bibliothèque et Archives nationales concluded a five-year agreement with the Ministère de l'Emploi et de la Solidarité sociale under which the Bibliothèque et Archives nationales lends the Department space for the activities of a career employment centre. Emploi-Québec has committed to paying the cost of setting up and operating the career employment centre as concerns documentary, human and material resources. Under this agreement, Emploi-Québec repaid the initial acquisition cost of a collection of 4 400 documentary resources (\$160 000), which became the property of the Bibliothèque et Archives nationales. Emploi-Québec also committed to repaying the costs linked to renewing the collections to an annual maximum of \$50 000. In the fiscal year ended March 31, 2009, these acquisitions represented \$22 300 (2008: \$33 453). These operations are posted at exchange value in the General Fund. For the fiscal year ended March 31, 2009, the amount posted as a Ministère de l'Emploi et de la Solidarité sociale financial contribution is \$25 921 (2008: \$23 691).

22. PAY EQUITY

Following the adoption of the *Pay Equity Act* on November 21, 1996 and the legislative amendments under the *Public Administration Act* that took effect on June 20, 2001, the Bibliothèque et Archives nationales du Québec had to carry out its own pay equity exercise. Given the legislative history and mergers resulting in the Bibliothèque et Archives nationales du Québec, its obligations under the *Pay Equity Act* were known only in December 2006, following discussions with the Commission de l'équité salariale. Job category evaluation officially began in 2007. The institution's pay equity program targeted jobs that were occupied on November 21, 2001 by Grande Bibliothèque du Québec staff. This program was completed in April 2009 and the amounts owing remain to be paid.

The Bibliothèque et Archives nationales estimated the adjustments and accrued interest payable to employees who held a position targeted by the pay equity adjustments under its own pay equity program as well as those adjusted under the Government's pay equity process for employees integrated following the mergers as of their respective integration dates. At March 31, 2009, the Bibliothèque et Archives nationales posted accounts payable and accrued liabilities of \$2 113 158, including interest payable and having deducted wage adjustments concerning wage relativity totalling \$393 749 paid in 2007 and 2008.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

22. PAY EQUITY (cont'd)

Once it has achieved pay equity, the Bibliothèque et Archives nationales is obliged to maintain it despite any changes the institutions may undergo, notably in terms of creating new jobs and job categories, amending existing jobs or their conditions and integrating employees following the mergers. The adjustments resulting from changes that occurred after November 21, 2001 were not evaluated and no amount was posted to the financial statements in this regard.

23. BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC FOUNDATION

On May 15, 2000, the Fondation de Bibliothèque et Archives nationales du Québec was created by letters patent issued under Part III of the Québec *Companies Act*. The Fondation is a not-for-profit legal entity whose mission is to collect funds to finance projects for the edification of all Quebecers and to support the Bibliothèque et Archives nationales in carrying out its mandates of major public library, national library, national archives, museum institution and frontline player in international La Francophonie. The Fondation has few activities. The Bibliothèque et Archives nationales graciously provides the Fondation with services and access to its premises and certain equipment. At March 31, 2009, the Fondation's net assets totalled \$398 312 (\$420 887 at March 31, 2008) following the Bibliothèque et Archives nationales' transfer, in past fiscal years, of a portion of its accumulated surpluses as start-up capital. In the event of the dissolution or transfer of the Fondation's activities, its remaining assets after paying its debts will be given to the Bibliothèque et Archives nationales or an organization carrying out analogous activities.

24. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Bibliothèque et Archives nationales du Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Bibliothèque et Archives nationales du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, reviews the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Bibliothèque et Archives nationales' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Lise Bissonnette
President-Director General

Louise Boutin
Director General, Administration and
In-house Services

Montréal, June 12, 2009

BIBLIOTHÈQUE ET ARCHIVES NATIONALES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Bibliothèque et Archives nationales du Québec as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Bibliothèque et Archives nationales management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Bibliothèque et Archives nationales as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 12, 2009

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES
(R.S.Q., c. A-33.2)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Autorité des marchés financiers contribution	\$2 100 000	\$2 100 000
Fees and related costs	7 197	3 660
Interest	<u>78 114</u>	<u>94 705</u>
	<u>2 185 311</u>	<u>2 198 365</u>
EXPENSES		
Salaries and fringe benefits	817 479	891 972
Rent and fit-ups	244 333	258 645
Amortization of capital assets	106 979	114 810
Operating expenses	112 099	98 345
Professional, administrative and other services	103 113	60 108
Part-time members' fees	23 207	26 080
Transportation and communications	<u>24 713</u>	<u>28 041</u>
	<u>1 431 923</u>	<u>1 478 001</u>
EXCESS OF REVENUES OVER EXPENSES	753 388	720 364
OPENING CUMULATED SURPLUS	<u>2 884 473</u>	<u>2 164 109</u>
CLOSING CUMULATED SURPLUS	<u><u>\$3 637 861</u></u>	<u><u>\$2 884 473</u></u>

The notes are an integral part of these financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRESBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	\$370 145	\$283 601
Accounts receivable and accrued interest	14 407	21 175
Short-term investments (Note 3)	2 004 379	1 265 044
Prepaid expenses	14 027	19 006
	<u>2 402 958</u>	<u>1 588 826</u>
Investment (Note 3)	1 291 369	1 289 230
Capital assets (Note 4)	<u>318 667</u>	<u>402 806</u>
	<u><u>\$4 012 994</u></u>	<u><u>\$3 280 862</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$56 070</u>	<u>\$59 646</u>
Provision for sick leave and vacation time (Note 6)	<u>319 063</u>	<u>336 743</u>
CUMULATED SURPLUS		
Contingency reserve (Note 7)	1 300 000	1 300 000
Unappropriated cumulated surplus	<u>2 337 861</u>	<u>1 584 473</u>
	<u>3 637 861</u>	<u>2 884 473</u>
	<u><u>\$4 012 994</u></u>	<u><u>\$3 280 862</u></u>

**FONDS DU BUREAU DE DÉCISION ET DE RÉVISION
EN VALEURS MOBILIÈRES (Note 9)**

The notes are an integral part of these financial statements.

On behalf of management
Alain Gélinas, Acting Chairman
Teresa Carluccio, Director of Administration

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$753 388	\$720 364
Adjustments for:		
Amortization of capital assets	<u>106 979</u>	<u>114 810</u>
	<u>860 367</u>	<u>835 174</u>
Change in non-cash items related to operations:		
Change in accounts receivable and accrued interest	6 768	(1 230)
Decrease in prepaid expenses	4 979	41 563
Change in accounts payable and accrued liabilities	(3 576)	37 535
Provision for sick leave and vacation time	<u>(17 680)</u>	<u>(123 842)</u>
	<u>(9 509)</u>	<u>(45 974)</u>
Cash flows related to operating activities	<u>850 858</u>	<u>789 200</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(22 840)	(1 300)
Long-term investment	<u>(2 139)</u>	<u>(294 787)</u>
Cash flows related to investment activities	<u>(24 979)</u>	<u>(296 087)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	825 879	493 113
OPENING CASH AND CASH EQUIVALENTS	<u>1 548 645</u>	<u>1 055 532</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 5)	<u><u>\$2 374 524</u></u>	<u><u>\$1 548 645</u></u>

The notes are an integral part of these financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Bureau de décision et de révision en valeurs mobilières (board), a public agency created under section 92 of the *Act respecting the Autorité des marchés financiers* (R.S.Q., c. A-33.2), exercises the powers stipulated in the *Securities Act* (R.S.Q., c. V-1.1), including the power of review provided for in section 322.

Under taxation legislation (R.S.Q., 1985, c. 1, 5th Supplement, 149 (1) c) and R.S.Q., c. I-3, s. 984), the board does not pay income tax.

The board administers and controls the Fonds du Bureau de décision et de révision en valeurs mobilières. The amounts required for the application of Title IV of the *Act respecting the Autorité des marchés financiers*, which includes the board's operating expenses, are taken from the Fonds. For more complete financial information, the board presents Fonds operations and assets separately in Note 9.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates are the service life of capital assets and the provision for sick leave and vacation time. Real results may differ from these estimates.

Accounting framework

As of this fiscal year, to prepare its financial statements, the board gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Previously, the board used the CICA Handbook (private sector). Changing to the Public Sector Accounting Handbook did not affect the board's accounting policies or results.

Capital assets

Capital assets are posted at cost and amortized using the straight-line method and the following service lives:

Computer equipment	3 years
Equipment and office furniture	5 years
Leasehold improvements	8 years

Amortization of capital assets

When the situation indicates that a capital asset no longer contributes to the board's capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its net book value, its cost is reduced to reflect this decline. Capital asset-related losses are posted to expenses in the statement of operations and cumulated surplus.

Investments

Short-term investments are recorded at cost or market value, whichever is lower.

Long-term investment is recorded at cost. The premium is amortized over the remainder of the long-term investment.

Revenue reporting

The Autorité des marchés financiers contribution is recorded as revenue when it is received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**2. ACCOUNTING POLICIES (cont'd)****Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the board lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is the board's policy to present cash and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

3. INVESTMENTS

	2009		2008	
	Cost	Fair value	Cost	Fair value
Short-term investments				
Government of Canada T-bills:				
- maturing May 14, 2009, at rate of return of 0.750%	\$2 004 379	\$2 008 148		
Government of Canada T-bills held at March 31, 2008			\$1 265 044	\$1 270 352
	<u>\$2 004 379</u>	<u>\$2 008 148</u>	<u>\$1 265 044</u>	<u>\$1 270 352</u>
Investment				
Government of Canada bond maturing on December 1, 2010, at rate of 0.969%	<u>\$1 291 369</u>	<u>\$1 302 732</u>	<u>\$1 289 230</u>	<u>\$1 312 386</u>

4. CAPITAL ASSETS

	2009		2008	
	Cost	Accumulated depreciation	Net	Net
Equipment and office furniture	\$170 052	\$139 948	\$30 104	\$62 371
Computer equipment	89 915	69 118	20 797	2 817
Leasehold improvements	<u>558 816</u>	<u>291 050</u>	<u>267 766</u>	<u>337 618</u>
	<u>\$818 783</u>	<u>\$500 116</u>	<u>\$318 667</u>	<u>\$402 806</u>

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. CASH FLOW**

The cash and cash equivalents shown in the cash flow statement include the following amounts reported in the balance sheet:

	2009	2008
Cash	\$370 145	\$283 601
Short-term investments	2 004 379	1 265 044
Cash and cash equivalents	<u>\$2 374 524</u>	<u>\$1 548 645</u>

6. FUTURE FRINGE BENEFITS**Pension plans**

Board staff participates in the Government and Public Service Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (PPMP), which are inter-enterprise, defined-benefit plans that offer benefits on retirement and death.

The board's contributions posted to results totalled \$46 839 (2008: \$48 303). Its obligations towards these Government plans are limited to its employer contributions.

Provision for sick leave and vacation time

During the fiscal year, the board changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation increased the value of the obligation by \$6 415 at March 31, 2009. The effect of this change was posted prospectively to results.

	2009			2008
	Sick leave	Vacation time	Total	Total
Opening balance	\$225 968	\$110 775	\$336 743	\$460 585
Annual expenses	27 517	76 485	104 002	76 592
Benefits paid	(29 497)	(72 263)	(101 760)	(171 821)
Adjustment *	(16 666)		(16 666)	
Subtotal	207 322	114 997	322 319	365 356
Benefits payable**	(2 573)	(683)	(3 256)	(28 613)
Closing balance	<u>\$204 749</u>	<u>\$114 314</u>	<u>\$319 063</u>	<u>\$336 743</u>

* Adjustment for an amount that was not payable resulting from an employee's departure.

** Included under "Accounts payable and accrued liabilities."

Description

The board has sick leave accumulation program, which leads to long-term obligations whose costs are borne by the board in their entirety.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

6. FUTURE FRINGE BENEFITS (cont'd)

The sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure these payments.

Sick leave accumulation program obligations increase as employees render services to the board. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

Subsequent evaluations and estimates

The sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009.

	<u>RREGOP</u>	<u>PPMP</u>
Indexation rate	2%	2%
Discount rate (rate for Québec bonds maturing in 10 years)	5.59%	2.87%
Average remaining service period of active employees	15 years	6 years

Provision for vacation time

No actualization calculation for the provision for vacation time is considered necessary since the board deems that vacation time accumulated will be taken the following fiscal year.

7. CONTINGENCY RESERVE

The board resolved to create a contingencies reserve to offset unforeseen changes in expenses.

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the board transacts with Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. Transactions in the normal course of operations and under normal business conditions are not shown separately in the financial statements.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

**9. FONDS DU BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES
CHANGES IN FUND BALANCE FOR THE YEAR ENDED MARCH 31, 2009**

	<u>2009</u>	<u>2008</u>
Increase		
Autorité des marchés financiers contribution	\$2 100 000	\$2 100 000
Fees and related costs	7 197	3 660
Interests	<u>78 114</u>	<u>94 705</u>
	<u>2 185 311</u>	<u>2 198 365</u>
Decrease		
Transfers linked to:		
Operating activities	1 341 221	1 407 935
Capital asset activities	<u>22 840</u>	<u>1 300</u>
	<u>1 364 061</u>	<u>1 409 235</u>
NET INCREASE	821 250	789 130
OPENING BALANCE	<u>2 859 050</u>	<u>2 069 920</u>
CLOSING BALANCE	<u><u>\$3 680 300</u></u>	<u><u>\$2 859 050</u></u>
THE BALANCE INCLUDES:		
Cash on hand	\$370 145	\$283 601
Accounts payable and accrued interest	14 407	21 175
Short-term investments	2 004 379	1 265 044
Investments	<u>1 291 369</u>	<u>1 289 230</u>
	<u><u>\$3 680 300</u></u>	<u><u>\$2 859 050</u></u>

Every year, the Government determines, by Order-in-council, the amount, terms and conditions of payment of amounts the Autorité des marchés financiers must pay to the Fonds.

An Order-in-council exempts the Autorité des marchés financiers from paying the fees and related costs stipulated in the Regulation to the Fonds.

BUREAU DE DÉCISION ET DE RÉVISION EN VALEURS MOBILIÈRES**MANAGEMENT'S REPORT**

The financial statements of the Bureau de décision et de révision en valeurs mobilières (board) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

Board management recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the board's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Alain Gélinas
Chairman

Teresa Carluccio
Director of Administration

Montréal, June 18, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Bureau de décision et de révision en valeurs mobilières as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of board management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the board's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 18, 2009

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
(R.S.Q., c. C-2)

COMBINED STATEMENT OF NET ASSETS
as at December 31, 2008
(in millions of dollars)

	2008	2007
ASSETS		
Investments at fair value (Notes 4a and b)	182 493	222 797
Advances to depositors	754	372
Investment income, accrued and receivable	1 394	1 209
Transactions being settled	1 241	1 567
Other assets	993	1 204
	<u>186 875</u>	<u>227 149</u>
LIABILITIES		
Liabilities related to investments (Note 4c)	62 612	66 100
Transactions being settled	849	2 087
Other liabilities	1 511	1 561
Non-controlling interests (Note 4d)	1 815	2 051
	<u>66 787</u>	<u>71 799</u>
DEPOSITORS' HOLDINGS (Note 5)	<u>120 088</u>	<u>155 350</u>

DERIVATIVE FINANCIAL INSTRUMENTS (Note 9)
COMMITMENTS AND CONTINGENCIES (Note 11)

The accompanying notes are an integral part of the combined financial statements.

For the Board of Directors,
Fernand Perreault
Claude Garcia

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED STATEMENT OF INCOME AND CHANGES IN NET ASSETS
for the year ended December 31, 2008
(in millions of dollars)

	2008	2007
Investment income (Note 6a)	6 161	6 531
Less:		
Operating expenses (Note 7)	263	261
External management fees	51	69
Net investment income	5 847	6 201
Gains (losses) on the sale of investments (Note 6d)	(23 228)	9 427
Total realized income (losses)	(17 381)	15 628
Unrealized decrease in value of investments and liabilities related to investments (Note 6e)	(19 034)	(5 860)
Unrealized decrease in value of investments in third-party and bank-sponsored ABCP, net of back interest (Note 4b)	(3 401)	(1 897)
Total unrealized decrease in value	(22 435)	(7 757)
Net investment results	(39 816)	7 871
Excess depositors' deposits over withdrawals	4 554	4 000
INCREASE (DECREASE) IN COMBINED NET ASSETS	(35 262)	11 871
COMBINED NET ASSETS, BEGINNING OF YEAR	155 350	143 479
COMBINED NET ASSETS, END OF YEAR	120 088	155 350

The accompanying notes are an integral part of the combined financial statements.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS**

as at December 31, 2008

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS

The Caisse de dépôt et placement du Québec, a legal person established in the public interest within the meaning of the Civil Code, is governed by the *Act respecting the Caisse de dépôt et placement du Québec* (R.S.Q., chapter C-2). It receives funds, the deposit of which is provided under the Act. Pursuant to both the federal and provincial income tax acts, the Caisse is not subject to income taxes.

GENERAL FUND (consolidated statements)

The General Fund comprises all treasury operations (management of demand and term deposits, and corporate financing) as well as results from net investments related to third-party and bank-sponsored asset-backed commercial paper ("third-party and bank-sponsored ABCP") held in the specialized Bonds portfolio (760).

INDIVIDUAL FUNDS

The individual funds are comprised of diversified investments, and each fund has only one depositor that exclusively makes participation deposits therein. The individual funds are for the use of the following depositors:

Fund 300

Fonds du Régime de rentes du Québec administered by the Régie des rentes du Québec;

Fund 301

Government and Public Employees Retirement Plan administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 302

Pension Plan for Management administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 303

Individual plans administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 305

Pension Plan for Elected Municipal Officers administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 306

Régime complémentaire de rentes des techniciens ambulanciers/paramédics et des services préhospitaliers d'urgence administered by the Aon Conseil;

Fund 307

Fonds d'assurance automobile du Québec administered by the Société de l'assurance automobile du Québec;

Fund 311

Supplemental Pension Plan for employees of the Québec construction industry - general account - administered by the Commission de la construction du Québec;

Fund 312

Supplemental Pension Plan for employees of the Québec construction industry - retirees account - administered by the Commission de la construction du Québec;

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)**INDIVIDUAL FUNDS (cont'd)****Fund 313**

Supplemental Pension Plan for employees of the Québec construction industry - supplementary account - administered by the Commission de la construction du Québec;

Fund 314

Fonds d'assurance-dépôts administered by the Autorité des marchés financiers;

Fund 315

Fonds d'assurance-prêts agricoles et forestiers administered by La Financière agricole du Québec;

Fund 316

Fonds d'amortissement du régime de retraite – RREGOP administered by the ministère des Finances, Government of Québec;

Fund 317

Fonds d'amortissement du régime de retraite – RRPE administered by the ministère des Finances, Government of Québec;

Fund 318

Fonds d'amortissement des autres régimes de retraite administered by the ministère des Finances, Government of Québec;

Fund 326

Fonds d'assurance-récolte administered by La Financière agricole du Québec;

Funds 327

Fédération des producteurs de bovins du Québec;

Fund 328

Régime de rentes de survivants administered by the Conseil du trésor, Government of Québec;

Fund 329

Fonds d'assurance-garantie administered by the Régie des marchés agricoles et alimentaires du Québec;

Fund 330

Fonds de la santé et de la sécurité du travail administered by the Commission de la santé et de la sécurité du travail;

Fund 332

Fonds des cautionnements des agents de voyages – cautionnements individuels administered by the Office de la protection du consommateur;

Fund 333

Fonds d'indemnisation des clients des agents de voyages administered by the Office de la protection du consommateur;

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)**INDIVIDUAL FUNDS (cont'd)****Fund 341**

Fonds pour l'éducation et la saine gouvernance – Fonds de trésorerie administered by the Autorité des marchés financiers;

Fund 342

Régime de retraite de l'Université du Québec administered by the Comité de retraite du Régime de retraite de l'Université du Québec;

Fund 343

Fonds d'assurance parentale administered by the Conseil de gestion de l'assurance parentale;

Fund 347

Régime de retraite du personnel des CPE et des garderies privées conventionnées du Québec administered by the Aon Conseil;

Fund 348

Régime complémentaire de retraite des employés syndiqués de la Commission de la construction du Québec administered by the Comité de retraite du Régime complémentaire de retraite des employés syndiqués de la CCQ;

Fund 351

Fonds des générations administered by the ministère des Finances, Government of Québec;

Fund 353

Régime de retraite des membres de la Sûreté du Québec – caisse participants administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 361

Régime de rentes pour le personnel non enseignant de la Commission des écoles catholiques de Montréal administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 362

Régime de retraite pour certains employés de la Commission scolaire de la Capitale administered by the Commission administrative des régimes de retraite et d'assurances;

Fund 363

Régime de retraite des employés de la Ville de Laval administered by the Comité du Régime de retraite des employés de la Ville de Laval;

Fund 368

Fonds pour l'éducation et la saine gouvernance – Fonds capitalisé administered by the Autorité des marchés financiers (created July 1, 2008).

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

1. CONSTITUTION AND OPERATIONS (cont'd)

SPECIALIZED PORTFOLIOS

The specialized portfolios are pooled funds for participation deposits of the various funds. The specialized portfolios are the following:

- Short Term Investments (740)	- Emerging Markets Equity (732)
- Real Return Bonds (762)	- Québec International (761)
- Bonds (760)	- Investments and Infrastructures (781) (consolidated statements)
- Long Term Bonds (764)	- Private Equity (780) (consolidated statements)
- Canadian Equity (720)	- Real Estate Debt (750) (consolidated statements)
- U.S. Equity - hedged (731)	- Real Estate (710) (consolidated statements)
- U.S. Equity - unhedged (734)	- Commodity Financial Instruments (763)
- Foreign Equity - hedged (730)	- Hedge Funds (770) (consolidated statements)
- Foreign Equity – unhedged (733)	- Asset Allocation (771)

2. ACCOUNTING POLICIES

The preparation of the combined financial statements of the Caisse in accordance with generally accepted accounting principles in Canada requires that management make estimates and assumptions, which have an impact on the accounting of assets and liabilities, the presentation of contingent assets and liabilities at the date of the financial statements and the accounting of revenues and expenses during the financial year covered by the financial statements. Actual results may differ from such estimates.

A statement of cash flows is not presented as it would provide no further useful information for the comprehension of cash flows during the year.

a) Combined financial statements

The combined financial statements comprise the accounts of the Caisse's subsidiaries, along with those of the General Fund, the individual funds, and the specialized portfolios. The accounts of each fund and each portfolio are presented in financial statements audited by the Auditor General of Québec.

b) Investments and joint operations

Investments and related assets and liabilities are accounted for at fair value, which is the estimated exchange value that would be agreed upon in an arm's-length transaction between competent, willing parties in conditions of full competition, established at the year-end.

Transaction costs which are directly attributable to the acquisition and sale of investments are included in income and applied against gains and losses on the sale of investments. Transaction costs include commissions and stock exchange fees.

FIXED-INCOME SECURITIES

Fixed-income securities comprise short-term investments, bonds, third-party and bank-sponsored ABCP and mortgages. Acquisitions and sales of fixed-income securities are recorded at the transaction date, except for mortgages which are recorded at the settlement date.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**b) Investments and joint operations (cont'd)****FIXED-INCOME SECURITIES (cont'd)****i) Valuation method**

The fair value of fixed-income securities other than mortgages is determined based on the market price when such a value is available. When a market price is not available, the fair value of the securities is determined based on valuation methods used in capital markets, such as the annualization of future cash flows at the current interest rate, or on similar transactions on an arm's-length basis. These valuations are supported by assumptions which consider market data such as interest rate yield curves and the risk premium related to the issuer's creditworthiness. In some cases, the data used in the assumptions do not rely on observable market factors as described earlier. Market data are adjusted to reflect uncertainty and to ensure securities are recorded at fair value. According to its estimates, management is of the opinion that the use of possible alternative assumptions to determine the fair value of these securities, with the exception of third-party and bank-sponsored ABCP, would not result in significantly different fair values. The valuation method for third-party and bank-sponsored ABCP, as well as the variations in fair value attributable to possible alternative assumptions for these securities, is discussed in note 4b.

The fair value of mortgages is determined based on the annualization of future contractual cash flows at the market interest rate. This rate is the rate that could be provided on loans or securities with similar conditions and maturities based on valuations made by management. Where the spreading of cash flows cannot be estimated in a reasonably reliable fashion, the fair value corresponds either to the fair value of any collateral on the security, after deducting expected costs of realization and any amount legally due to borrowers, or at the observable market price for the security.

The fair value of most fixed-income securities is reviewed biannually by valuation committee, comprised of independent experts or by an independent valuation firm.

ii) Investment income and gains and losses on the sale of investments

Investment income from fixed-income securities includes amortization of the premium and the discount, which makes it possible to maintain a constant real return until maturity. Income from mortgages is reduced by operating expenses and financial costs of CMBS and is recorded under Investment Income – Fixed-income securities

Gains and losses on the sale of investments represent the difference between the unamortized cost and the net realizable fair value on the sale of investments. The unamortized cost represents the acquisition cost adjusted to reflect the amortization of the premium or discount.

VARIABLE-INCOME SECURITIES

Variable-income securities comprise equities and convertible securities as well as real estate holdings. Acquisitions and sales of equities and convertible securities are recorded at the transaction date, while acquisitions and sales of real estate are recorded at the settlement date.

i) Valuation method

The fair value of equities and convertible securities traded on a stock exchange is determined based on prices on major stock exchanges as well as those provided by recognized financial institutions. For unlisted equities and convertible securities, valuations are made using commonly used valuation methods such as the earnings multiples of comparable listed companies, the annualization of cash flows, or based on similar transactions made on an arm's-length basis. The most commonly used earnings multiples are the EBITA multiple, the p/e multiple and the price/book ratio. The valuations of unlisted equities and convertible securities are reviewed biannually by valuation committee, comprised of independent experts or by an independent valuation firm.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**b) Investments and joint operations (cont'd)**

VARIABLE-INCOME SECURITIES (cont'd)

i) Valuation method (cont'd)

The fair value of private investment funds presented under Equities and convertible securities, is determined based on the fair value provided by the general partner, using commonly used valuation methods.

The fair value of real estate holdings is determined and certified annually by recognized independent chartered appraisers. The valuation techniques used rely principally on three recognized methodologies: the capitalization of earnings, the annualization of cash flows at market rate and the comparison to recent similar market transactions. The amount established is supported by reasonable assumptions and is subsequently adjusted to reflect other assets and liabilities that have an impact on fair value.

ii) Investment income and gains and losses on the sale of investments

Dividend income is recognized on the ex-dividend date. Income from real estate holdings is reduced by operating expenses related to real estate holdings, operation expenses and loan financial expenses, and is recorded under the item Investment income – Variable-income securities.

Gains and losses on the sale of investments represent the difference between the cost and the net realizable value on the sale of investments. The cost of investments is the acquisition cost, except for the acquisition cost of investments in joint ventures, which are accounted for using the equity method.

DERIVATIVE FINANCIAL INSTRUMENTS

Pursuant to its investment management, the Caisse conducts transactions involving various derivative financial instruments to manage the risks associated with exchange rate, interest rate, and market fluctuations.

Derivative financial instruments whose fair value is favourable are recorded under the item Investments, whereas those whose fair value is unfavourable are recorded under Liabilities related to investments.

i) Valuation method

Derivative financial instruments are recorded at their fair value at year-end. These values are established using prices on the major stock exchanges as well as those provided by recognized financial institutions. For unlisted instruments, fair value is determined based on similar transactions made on an arm's-length basis or using recognized and commonly used models. Models used include the annualization of future cash flows at current return and the Black & Scholes model. These models require the use of assumptions regarding the amount and maturity of future cash flows and current return. Assumptions are prepared based on market data such as interest rate yield curves, premiums related to credit risk, foreign exchange rates as well as volatility and correlation of equity and commodity prices and interest rate. In the case of derivative financial instruments that are new, complex or with a long-term maturity, it can be necessary to use assumptions that are based on non-market data such as a projection of interest rate curves and data on volatility. Such data are subsequently adjusted to reflect uncertainty and to ensure securities are recorded at fair value. Based on its estimates, management believes using alternative assumptions to evaluate such derivative financial instruments at fair value would not result in significantly different fair values.

The fair value estimates of most derivative financial instruments are reviewed biannually by independent valuation firm.

ii) Investment income and gains and losses on the sale of investments

Investment income from derivative financial instruments is included in income from fixed-income and variable-income securities, whereas gains and losses from derivative financial instruments are included in gains (losses) on the sale of investments on the basis of the underlying investments.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**b) Investments and joint operations (cont'd)****SECURITIES ACQUIRED UNDER REVERSE REPURCHASE AGREEMENTS**

The Caisse conducts security-borrowing operations involving short-term investments and bonds to cover short sales or to generate additional income from security-borrowing operations. These security-borrowing operations are recorded under Securities acquired under reverse repurchase agreements. Interest earned on reverse repurchase agreements is recorded as interest income under the item Investment income – Fixed-income securities.

SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

The Caisse conducts security-lending operations involving short-term investments and bonds to generate cash flow liquidity or to generate additional income from security-lending operations. These security-lending operations are recorded under Securities sold under repurchase agreements. Interest paid on repurchase agreements is applied against Investment income – Fixed-income securities.

SHORT SELLING OF SECURITIES

Short selling of securities represents the commitment by the Caisse to purchase securities from third parties to cover its positions. Interest expenses related to commitments involving short selling of short-term investments and bonds are recorded under Investment income – Fixed-income securities, whereas costs related to commitments involving short selling of equities are recorded under Investment income – Variable-income securities.

Gains and losses on commitments related to short selling of short-term investments and bonds are recorded in Gains (losses) on the sale of investments – Fixed-income securities, whereas those related to short selling of equities are recorded in Gains (losses) on the sale investments – Variable-income securities.

c) Administered property and property under management

The Caisse and its subsidiaries administer and manage property entrusted to them by clients and on their behalf. This property is not included in the “Combined statement of net assets” of the Caisse. The Caisse and its subsidiaries receive fees in return for such portfolio management services and administrative services, which include the administration of real estate properties and management of securitized loans.

d) Foreign currency translation

The fair value of investments and any other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rate of exchange prevailing at the year-end.

The cost of investments in equities and that of real estate holdings from integrated foreign operations and the unamortized costs of investments in bonds, mortgages, and short-term investments are translated at the rate of exchange prevailing on the acquisition date. The cost of investments from self-sustaining foreign operations is translated at the rate prevailing at the year-end.

Income is translated at the rate of exchange prevailing on the transaction date, with the exception of income from the specialized real estate portfolio, which is translated at the average rate for the year.

e) Loan securitization

The Caisse periodically securitizes loans and mortgages by selling such loans and mortgages to a collateralized security entity, which subsequently issues securities to investors. Such transactions are recorded as sales where the Caisse is deemed to have relinquished control over such assets and to have received compensation other than the beneficial rights attached to the assets disposed of, in accordance with Accounting Guideline AcG-12 “Transfers of receivables” in the Canadian Institute of Chartered Accountants (“CICA”) Handbook. At the time of securitization, no beneficial right attached to the securitized loans is retained. Any gains and losses deriving from such transactions are recorded under Gains (losses) on the sale of investments – Mortgages and Bonds.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

2. ACCOUNTING POLICIES (cont'd)**e) Loan securitization (cont'd)**

Companies under common control usually continue to manage loans after disposition. Since management fees are established on the basis of the market for such services, no assets or liabilities under management are recorded at the date of disposition.

f) Operating expenses

Operating expenses represent all expenses related to portfolio management and administration, with the exception of those related to external management. Operating expenses are presented under a specific item in the “Combined statement of income and changes in net assets”. Expenses related to the management of the specialized real estate and real estate debt portfolios are included in operating expenses. Operating expenses related to the management and administration of real estate holdings and mortgages are deducted from real estate holdings investment income and mortgages investment income respectively.

g) External management fees

External management fees represent amounts paid to external financial institutions, principally institutional fund managers active on international stock markets, for the management of Caisse funds on behalf of the Caisse. External management fees are presented under a specific item in the “Combined statement of income and changes in net assets”.

3. ADOPTION OF SECTION 3862 FINANCIAL INSTRUMENTS – DISCLOSURE AND SECTION 3863 FINANCIAL INSTRUMENTS - PRESENTATION

On January 1, 2008 the Caisse adopted the provisions in Section 3862 Financial Instruments – Disclosure and Section 3863 Financial Instruments – Presentation. Sections 3862 and 3863 replace Section 3861 Financial Instruments – Disclosure and Presentation. These sections amend the requirements regarding the presentation of the notes to financial statements, and emphasize the importance of the information to be disclosed concerning the nature and size of risks related to financial instruments as well as the method used by the entity to manage such risks.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS**a) Investments**

	2008		2007	
	Fair value	Cost	Fair value	Cost
Fixed-income securities				
Short-term investments				
Canadian	5 826	5 910	9 889	9 894
Foreign	3 580	4 522	4 865	4 898
	<u>9 406</u>	<u>10 432</u>	<u>14 754</u>	<u>14 792</u>
Bonds				
<i>Issued or guaranteed by:</i>				
Canadian government	16 552	15 211	23 586	22 966
Province of Québec	9 265	8 517	8 592	7 831
Other Canadian provinces	3 047	2 969	2 304	2 236
Municipalities and other Canadian bodies	1 611	1 597	1 728	1 724
Canadian government corporations	11 091	10 201	13 311	12 619
U.S. government	823	740	205	208
Other foreign governments	1 812	1 594	1 759	1 814
Mortgage securities				
Canadian	272	276	284	276
Foreign	711	2 438	2 022	2 601
Canadian corporations	12 592	13 623	15 947	16 260
Foreign corporations	2 911	4 076	4 695	5 315
Inflation-indexed securities				
Canadian	587	604	934	895
Foreign	1 973	1 611	3 381	3 664
Hedge funds	439	460	2 132	2 323
	<u>63 686</u>	<u>63 917</u>	<u>80 880</u>	<u>80 732</u>
Third-party and bank-sponsored ABCP (Note 4b)	<u>7 186</u>	<u>12 787</u>	<u>10 740</u>	<u>12 607</u>
Mortgages				
Canadian	6 451	6 431	5 979	5 939
Foreign	5 342	5 738	4 481	4 574
	<u>11 793</u>	<u>12 169</u>	<u>10 460</u>	<u>10 513</u>
Total fixed-income securities (amounts carried forward)	<u>92 071</u>	<u>99 305</u>	<u>116 834</u>	<u>118 644</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**a) Investments (cont'd)**

	2008		2007	
	Fair value	Cost	Fair value	Cost
Total fixed-income securities (amounts brought forward)	92 071	99 305	116 834	118 644
Variable-income securities				
Equities and convertible securities				
Canadian	12 523	16 055	17 172	14 938
U.S.	10 968	14 604	18 208	20 127
Foreign and emerging markets	17 714	21 180	26 926	24 357
Hedge funds	4 688	4 933	4 848	5 051
	45 893	56 772	67 154	64 473
Real estate holdings				
Canadian	11 884	8 987	13 413	9 330
Foreign	11 032	10 450	9 027	8 397
	22 916	19 437	22 440	17 727
Total variable-income securities	68 809	76 209	89 594	82 200
Amounts receivable with respect to investments				
Securities acquired under reverse repurchase agreements				
Canadian	2 900	2 901	2 457	2 127
Foreign	2 780	2 730	4 986	5 110
Amount pertaining to derivative instruments				
Canadian	2 465	26	532	39
Foreign	13 468	1 681	8 394	1 921
	21 613	7 338	16 369	9 197
Total investments	90 422	83 547	105 963	91 397

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**a) Investments (cont'd)**

The fair value of investments includes Canadian and foreign private equities for which no market price is available. The fair value of such securities details as follows:

	2008	2007
Canadian securities		
Short-term investments	1 184	1 234
Bonds	1 122	1 244
Third-party and bank-sponsored ABCP	7 186	10 740
Equities and convertible securities	3 786	4 789
	<u>13 278</u>	<u>18 007</u>
Foreign securities		
Short-term investments	2 764	3 030
Bonds	690	769
Equities and convertible securities	18 072	16 593
	<u>21 526</u>	<u>20 392</u>
	<u>34 804</u>	<u>38 399</u>

Investments – Real estate holdings includes investments in joint ventures reported on an equity basis. These investments at fair value details as follows:

	2008	2007
Investments in joint ventures	<u>9 097</u>	<u>8 401</u>
Real estate holdings	15 889	14 356
Short-term investments	15	29
Investment income, accrued and receivable	10	6
Other assets	678	586
	<u>16 592</u>	<u>14 977</u>
Loans and notes payable	74	106
Mortgage loans payable	6 284	5 367
Other liabilities	1 026	1 053
Non-controlling interests	111	50
	<u>7 495</u>	<u>6 576</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP**

As at December 31, 2008, the Caisse held investments in Canadian asset-backed commercial paper ("ABCP") that has been restructured. These investments are divided into three types:

- "Third-party ABCP" that has been restructured under the restructuring agreement of the Pan-Canadian Investors Committee;
- "Other third-party ABCP" that has been restructured (White Knight Trust) or whose restructuring has failed (Devonshire Trust); and
- "Bank-sponsored ABCP" that had to be restructured in 2008 as the securities matured (Apex Trust, Great North Trust and Superior Trust).

DESCRIPTION OF ABCP

ABCP is short-term debt supported by a range of financial instruments. The assets, such as mortgage or consumer loans, or exposure to risk, such as credit default swaps, are acquired by a conduit by means of various types of transaction, including the purchase of financial assets and derivatives. ABCP is generally issued for a term of 30, 60 or 90 days, discounted or interest-bearing.

The financial instruments serving as assets for a conduit that issued ABCP generally have maturities that are longer than the maturity of the ABCP issued. The conduit therefore must typically have liquidity backstop facilities with a financial institution that it can avail itself of, on certain conditions, in the event that it is not able to issue new ABCP securities in order to redeem those that mature or to meet the need for additional liquid assets.

Until the summer of 2007, narrowing credit spreads were conducive to the creation of leveraged super-senior ("LSS") structures. These structures give investors exposure supported by a super-senior tranche of a group of reference assets. Generally speaking, the exposure corresponds to many times the amount invested by investors in a given conduit and posted as collateral by the conduit for the beneficiary of the credit protection. For example, an investment of \$10 million may be supported 10 times by means of a credit linkage to a super-senior tranche with a notional amount of \$100 million. The combination of assets posted as collateral and a credit default swap, such as an LSS, is generally referred to as synthetic assets.

A super-senior tranche has an attachment point, namely the threshold of losses that the group of reference assets must reach before payment obligations are triggered. In general, this threshold significantly exceeds the level of loss consistent with a note rated R-1 (high) or AAA. Thus the level of loss to which the super-senior tranche is exposed is generally lower than that historically experienced for this rating level. When the level of loss increases or when there are indicators showing that it could rise (triggers for additional collateral calls), the purchasers of protection against credit default may require additional collateral over and above the amounts initially invested. The structures did not have mechanisms to obtain liquid assets so as to meet the additional collateral calls.

If additional collateral cannot be provided, the LSS is unwound to the benefit of the purchaser of protection against credit default. This unwinding entails a loss for the investors in the ABCP, even if the real loss of the group of reference assets has not reached the attachment point on the super-senior tranche.

The subprime mortgage crisis in the United States caused disruption on the international markets, which resulted in a liquidity crisis on the Canadian third-party ABCP market in mid-August 2007. Since August 13, 2007, the Caisse has not been able to have redeemed amounts due under third-party ABCP. When acquired by the Caisse, the ABCP was rated R-1 (high) by the rating agency DBRS Limited ("DBRS"), namely the highest rating issued by DBRS for asset-backed commercial paper.

On August 13, 2007, the liquidity providers did not make available the amounts committed pursuant to their undertakings, since they did not believe that the necessary conditions had been met. The investors and the banks that had purchased credit default protection therefore agreed to a standstill period and began discussions within the framework of the Montréal Proposal and the Pan-Canadian Investors Committee for ABCP.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP****TIMELINE OF THE RESTRUCTURING EFFORTS****Third-party ABCP**

The efforts to restructure third-party ABCP, which began on August 13, 2007, and in which the Caisse has taken part actively, resulted in the conclusion of an agreement on December 24, 2008, which then required approval by the decision-making authorities of the institutions concerned as well as orders-in-council. The agreement was subsequently confirmed in its proposed form and gave rise to an exchange of securities on January 21, 2009.

The timeline of the key events leading to the restructuring is as follows:

On August 15, 2007, a group of investors and financial institutions, including the Caisse, proposed an agreement, the Montréal Proposal, designed to re-establish a climate of trust and to implement an effective resolution strategy that would include matching of the maturities of the underlying assets and replacement notes. Under the agreement, the investors and the financial institutions undertook not to put the conduits in default in order to avoid an unwinding of the credit protection and a forced sale of the debt and the underlying financial assets (the “standstill period”).

On September 6, 2007, a Pan-Canadian Investors Committee consisting of participants in the Montréal Proposal was formed to oversee the restructuring process.

On November 6, 2007, DBRS issued a public information document providing additional information on the composition of each conduit. DBRS confirmed at that time that 97% of the debt and the underlying financial assets was of the highest quality and retained a AAA (high) rating, and that 2% was rated AA or AA (low).

On December 23, 2007, the Pan-Canadian Investors Committee approved an agreement in principle (the “restructuring proposal”) for all the trusts covered by the Montréal Proposal, with the exception of Skeena Capital Trust (already restructured) and Devonshire Trust. The main objectives of the restructuring proposal announced on that date were to replace the third-party ABCP with new securities having maturities similar to those of the debt and the underlying financial assets, to combine certain series of third-party ABCP that are supported in whole or in part by synthetic assets, to alleviate the obligations of margin calls on LSS, to put in place margin funding facilities and to foster a secondary market so as to generate liquid assets for the holders of third-party ABCP.

On March 17, 2008, the Ontario Superior Court of Justice granted a motion by the Committee under the *Companies’ Creditors Arrangement Act* (“CCAA”) intended to establish a procedure to secure approval by the noteholders of a formal restructuring plan (the “plan”).

On April 25, 2008, 96% of the noteholders in terms of number and value voted in favour of the plan.

On June 5, 2008, the plan was ratified by the Ontario Superior Court of Justice. The ruling was then appealed by a group of ABCP noteholders who wished to contest the plan’s implementation.

On August 18, 2008, the Court of Appeal for Ontario upheld the decision of the Ontario Superior Court of Justice.

On September 19, 2008, the Supreme Court of Canada rejected the application for leave to appeal filed by the group of noteholders.

On December 24, 2008, the Pan-Canadian Investors Committee and the banks that had purchased protection concluded a final restructuring agreement that was confirmed in January 2009 once the required approvals and orders-in-council were obtained. The key aspects of the final agreement are as follows:

— Creation of three new structures in the form of trusts called “master asset vehicles” (“MAV 1,” “MAV 2” and “MAV 3”).

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)**

TIMELINE OF THE RESTRUCTURING EFFORTS (cont'd)

Third-party ABCP (cont'd)

- MAV 1 and MAV 2 will consist of the transactions of the ABCP conduits constituted solely of synthetic assets or of hybrid assets, namely a combination of synthetic and traditional assets. They will also include the high-risk assets associated with these transactions.
- The main difference between MAV 1 and MAV 2 is that the margin funding facility is self-funded for the participants in MAV 1, whereas it is provided by third-party lenders in the case of MAV 2. As a result of this distinction, the interest paid to the holders of notes issued by MAV 2 is less than that paid to the holders of notes issued by MAV 1.
- Establishment of margin funding facilities in support of MAV 1 and MAV 2 to finance possible collateral calls on the underlying LSS.
- MAV 3 will consist of transactions of the ABCP conduits constituted exclusively of high-risk assets and traditional assets.
- Establishment of an initial 18-month standstill period during which no additional collateral calls may be effected on the LSS.
- Widening of certain “spread-loss triggers,” thereby deferring the possible triggering of additional collateral calls.
- The Government of Canada, the governments of Québec, Alberta and Ontario, and the Caisse are taking part in the final agreement by establishing an additional senior margin funding facility.

On January 21, 2009, DBRS issued a final rating report for the Class A-1 and A-2 notes issued by MAV 1 and MAV 2 and confirmed the preliminary ratings issued on December 29, 2008, namely A.

Other third-party ABCP

On October 16, 2007, the Pan-Canadian Investors Committee announced the successful restructuring of the first of the 22 conduits affected by the Montréal Proposal, namely Skeena Capital Trust (restructured under the name of White Knight Trust).

On December 20, 2007, the Caisse received replacement securities and liquid assets on completion of the restructuring of this investment. Initially rated AAA by DBRS, the notes of White Knight Trust were successively downgraded to AA (low) in November 2008 and A (low) in January 2009.

Since December 23, 2007, many restructuring proposals have been reviewed with the bank that purchased protection against credit default by Devonshire Trust. These numerous attempts all proved unproductive. As a result of this failure, the bank began legal proceedings on January 13, 2009, to recover the collateral posted by the trust, and the Caisse therefore took a provision for the loss of its entire investment, resulting in a decrease in value of \$337 million for fiscal 2008 (\$48 million in 2007).

Bank-sponsored ABCP

The Caisse holds ABCP issued by trusts sponsored by financial institutions, including Sitka Trust (since restructured under the name of Apex Trust), Great North Trust and Superior Trust. As a result of market turbulence, these trusts received substantial collateral calls from purchasers of credit protection. The trusts were therefore restructured in 2008.

The replacement securities for Apex Trust, Superior Trust and Great North Trust received by the Caisse are not rated by an external agency.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Bank-sponsored ABCP (cont'd)**

BALANCE AS AT DECEMBER 31

As at December 31, 2008 and 2007, the investments in third-party and bank sponsored ABCP consist of the following elements:

	December 31, 2008		
	Fair value	Cumulative unrealized decrease in value	Cost
Third-party ABCP restructured under the agreement of the Pan-Canadian Investors Committee			
Synthetic and hybrid assets ¹	6 017	(3 725)	9 742
Traditional assets ²	623	(115)	738
High-risk assets		(890)	890
	<u>6 640</u>	<u>(4 730)</u>	<u>11 370</u>
Other			
Third-party ABCP not restructured		(385)	385
Third-party ABCP restructured	198	(92)	290
Bank-sponsored ABCP restructured	<u>348</u>	<u>(394)</u>	<u>742</u>
	<u>7 186</u>	<u>(5 601) ³</u>	<u>12 787</u>
Restructuring costs		<u>(86)</u>	
Cumulative unrealized decrease in value as at December 31, 2008		(5 687)	
Writeoff of assets ⁴		<u>(171)</u>	
Losses on the sale of investments and cumulative unrealized decrease in value as at December 31, 2008		(5 858)	
Accrued interest receivable ⁵		<u>389</u>	
		<u>(5 469)</u>	

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Bank-sponsored ABCP (cont'd)**

BALANCE AS AT DECEMBER 31 (cont'd)

	December 31, 2007		
	Fair value	Cumulative unrealized decrease in value	Cost
Third-party ABCP restructured under the agreement of the Pan-Canadian Investors Committee			
Synthetic and hybrid assets	8 635	(1 216)	9 851
Traditional assets	1 196	(103)	1 299
High-risk assets	313	(469)	782
	<u>10 144</u>	<u>(1 788)</u>	<u>11 932</u>
Other			
Third-party ABCP not restructured	337	(48)	385
Third-party ABCP restructured	259	(31)	290
	<u>10 740</u>	<u>(1 867) ³</u>	<u>12 607</u>
Restructuring costs		<u>(30)</u>	
Cumulative unrealized decrease in value as at December 31, 2007		<u>(1 897)</u>	

1 The investments reflect the commitment made by the Caisse in 2008 to acquire MAV 2 notes at a discount at the time of the restructuring. The notional amount and the agreed-on purchase price for the notes are \$170 million and \$119 million respectively.

2 Not including an amount of \$550 million representing the Caisse's share of repayment of underlying assets redeemed by the conduits as of December 31, 2008.

3 Includes the fair value of the commitments described in the following item.

4 During fiscal 2008, the restructuring of certain ABCP securities entailed writeoffs and similar adjustments of about \$171 million.

5 Received on January 21, 2009.

PRESENTATION IN COMBINED INCOME AND CHANGES IN NET ASSETS

Cumulative unrealized decrease in value as at December 31, 2008	(5 687)
Cumulative unrealized decrease in value as at December 31, 2007	<u>(1 897)</u>
	<u>(3 790)</u>
Accrued interest receivable	<u>389</u>
Unrealized decrease in value of investments in third-party and bank-sponsored ABCP, net of back interest	<u>(3 401)</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****COMMITMENTS ASSOCIATED WITH THIRD-PARTY AND BANK-SPONSORED ABCP**

The following table summarizes the commitments associated with the restructuring of third-party and bank-sponsored ABCP and the estimate of its fair value, which is included in the valuation of ABCP provided in the preceding item:

	December 31, 2008	
	Ultimate maturity	Commitments
Agreement of the Pan-Canadian Investors Committee		
MAV 1 MFF – basic	July 2017	5 767
MAV 1 MFF – additional interest	July 2017	400
MAV 1 and MAV 2 SFF	July 2017	300
Subtotal		6 467
Restructured bank-sponsored ABCP	December 2016	323
Total		6 790

	December 31, 2007	
	Ultimate maturity	Commitments
Preliminary agreement of the Pan-Canadian Investors Committee		
MAV 1 MFF – basic	July 2017	5 153

The fair value of the commitments is estimated to be a negative amount of \$634 million (\$383 million in 2007).

Margin funding facility (“MFF”)

In addition to the assets already provided as collateral to the purchaser of credit default protection, the final agreement of the Pan-Canadian Investors Committee provides that MAV 1 and MAV 2 must have an MFF to cover any collateral calls on the LSS. The Caisse has decided to self-fund its share of the MFF, which explains its interest in MAV 1.

The Caisse’s share of this credit commitment amounts to \$5 767 million, has the same rank as that of the other participants and matures in July 2017 or at an earlier date if all the LSS transactions are settled beforehand. This amount represents the commitment of \$5 153 million that was negotiated under the preliminary agreement in December 2007, to which has been added an amount of \$614 million under the terms of the final agreement of December 24, 2008. The Caisse will receive no fee in respect of this credit commitment. The advances that could be made under this MFF will bear interest at a rate based on the bankers’ acceptance rate or the prime rate. All amounts advanced under the MFF will take precedence over the amounts payable on the notes issued by MAV 1. In the event that the Caisse defaults on its obligations to provide funds under its share of the MFF, the MAV 1 notes held by the Caisse could be exchanged for subordinated notes. The Caisse will have to maintain a credit rating equivalent to AA (high) with at least two of the four rating agencies, DBRS, S&P, Fitch and Moody’s, failing which it will have to provide collateral or another type of credit support to MAV 1 or fulfill its commitments through another entity with a sufficiently high credit rating.

Under a separate agreement, the Caisse has agreed to take an interest of \$400 million in the MFF commitments of a MAV 1 participant in exchange for a commitment fee of 1.2% per annum, namely the same rate as the third-party institutions that have underwritten the equivalent MAV 2 MFF. This interest will end automatically at the end of the MAV 1 MFF. This facility is at the same level as the Caisse’s interest in the MFF, which means that these facilities would be called simultaneously in the event of a collateral call.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Senior funding facility ("SFF")**

In the event that the MAV 1 MFF and the equivalent MAV 2 facility prove insufficient to meet the collateral calls of the vehicle in question, an SFF has been put in place with the participation of the governments of Canada, Québec, Alberta and Ontario and the Caisse for MAV 1 (\$1.8 billion) and MAV 2 (\$1.7 billion) to provide access to additional liquid assets. The Caisse's share of these credit commitments is \$154 million for MAV 1 and \$146 million for MAV 2. The Caisse will receive a commitment fee of 1.19% per annum until December 2016 in respect of this credit commitment. These commitments expire in July 2010, unless an amount has been drawn down and remains unpaid at that date, in which case all the liquid assets available for repayment in MAV 1 or MAV 2, as the case may be, will be used to pay the interest and principal of the SFFs before the relevant MFF and the notes issued by the vehicle in question. The advances that may be made under this facility will bear interest at a rate based on the bankers' acceptance rate or the prime rate.

Commitments associated with bank-sponsored ABCP

The bank-sponsored ABCP securities restructured in 2008 include two securities that represent interests in trusts that have indirect interests in LSS. To protect its interest in the underlying assets, the Caisse has agreed thus far to take part in collateral calls totalling \$323 million, which have not yet had to be disbursed. In the event of additional collateral calls by the trusts, the Caisse will be able to decide at that time whether to take part. If it does not take part, the underlying positions will be liquidated, and the Caisse's investments will in all likelihood be lost. The securities and the related commitments mature at the latest in December 2016.

ESTABLISHMENT OF FAIR VALUE

Given that there is no active market for the third-party and bank-sponsored ABCP in which the Caisse holds investments, it has established, in accordance with CICA guidelines, fair values for the various ABCP securities, using a valuation technique based on a financial model whose assumptions and probabilities reflect uncertainties regarding the amounts, the return and maturity of the cash flows, the illiquidity risk, the nature and credit risk of the debt and the underlying financial assets, and credit spreads reflecting market conditions as at December 31, 2008. The assumptions, based on information available as at December 31, 2008, use observable market data, such as interest rates and credit quality and price, as much as possible. They also take into account specific aspects of the plan and are based partially on assumptions not supported by prices or rates observed on the market. As already stated, pursuant to the final restructuring plan, the third-party ABCP securities will be converted into new securities with maturities corresponding to those of the underlying assets. The new securities will bear interest at rates that will ultimately reflect the cash flow available within the vehicles, including the cost inherent in the funding facilities included in the restructuring plan.

The fair value of each third-party and bank-sponsored ABCP security has been established from an estimate of the present value of cash flows according to various default and credit loss scenarios on all the underlying assets, the real maturities of the securities and the expected interest rates, and takes into account subordination of the restructured notes, where required. Once adjusted to take into account the impact of the credit risk of the underlying assets, the expected cash flows on the third-party and bank-sponsored ABCP investments are discounted at a rate corresponding to a AAA credit rating, plus a financing and illiquidity premium. The main assumptions considered in the model, excluding the high-risk assets, are as follows:

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Fair value of third-party and bank-sponsored ABCP – Main assumptions**

	December 31, 2008	December 31, 2007
Success rate of the restructuring plan	100%	90%
Weighted average interest rate of the notes to be received in the restructuring ¹		
A-1, A-2 and B	BA ² + 0.30%	BA ² + 0.30%
Default rate and credit loss	S&P 1981-2007 table Default rated adjusted as a function of a downgrade Level of loss with a 70% default rate	S&P 1981-2006 table Default rated adjusted as a function of a downgrade Level of loss with a 60% default rate
Financing and illiquidity premiums	4.50%	1.03%
Cost of margin funding facilities	The financial impact of the facilities has been calculated on the basis of an annual commitment fee of 1.6%	The financial impact of the facilities has been calculated on the basis of an annual commitment fee of 1.2%
Planned maturity of the new notes	December 2016 for the MAV 1 and 2 notes	As a function of the LSS maturities
Credit rating of the new notes ¹	A for the series A-1 and A-2 notes The series B and C notes are not rated	AAA for most of the LSS

¹ Final data for 2008.² Three-month bankers' acceptance rate.

Given the nature of the underlying assets and their significant deterioration in the current economic context, the decrease in value applicable to the high-risk assets has been established at 100% of the notional amount of these securities as at December 31, 2008 (60% in 2007).

The assumptions regarding cash flows vary for each of the new variable-rate and long-term notes that will be issued, since they will have different credit ratings and risks.

The maturities vary according to the type of note because of the nature and the expected maturities of the underlying assets.

The Caisse has taken into account the probability that the historic cumulative default rates corresponding to the discount period will be more severe in the years to come. For the synthetic and hybrid assets, the estimated default rates apply to all the underlying assets.

As already stated, the Caisse has provided funding facilities totalling \$6 467 million to MAV 1, MAV 2 and a MAV 1 participant under the final restructuring plan. The Caisse will receive an annual commitment fee of 1.19% on the SFF totalling \$300 million and 1.2% on the additional interest of \$400 million in the MFF and will receive no commitment fee for the basic interest of \$5 767 million of the MFF. The Caisse has estimated the financing premium normally required to be 1.6% in respect of the three facilities. In accordance with generally accepted accounting principles in Canada, the commitments to provide additional margin constitute lending commitments that must be recorded initially at their fair value. There is no active market from which the

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Fair value of third-party and bank-sponsored ABCP – Main assumptions (cont'd)**

Caisse could derive the fair value of these commitments. Accordingly, the Caisse has established the fair value by applying a valuation technique that takes into account the fair value of substantially similar commitments and an analysis of discounted cash flows. The Caisse has included the financial impact of it in the valuation described previously. In the model used to determine the fair value of the ABCP, the Caisse has considered the fact that the triggers of collateral calls are based on spread-loss triggers linked more directly to the real behaviour of the reference portfolio of underlying assets, unlike certain mark-to-market triggers that reflect the price of credit more than the intrinsic credit quality of the same assets.

For the year ended December 31, 2007, the Caisse has not recorded interest income in respect of the third-party ABCP that it held from August 13, 2007. As at December 31, 2008, the cash flows considered in the model used to determine fair value include about \$389 million of interest paid in January 2009 in respect of unpaid interest to August 31, 2008. Moreover, assumptions have also been made regarding the Caisse's share of the restructuring costs incurred to date as a member of the Pan-Canadian Investors Committee, less what will ultimately be recovered from the other participants in MAV 1 and MAV 2. The Caisse estimates that its cumulative net share of the restructuring costs could be \$86 million, and that amount has been taken into account in the calculation of fair value.

Effect of the results on valuation

Given the foregoing, the Caisse as recorded against its portfolio of ABCP securities in difficulty a total decrease in value of \$3 401 million and an asset writeoff of \$171 million in its combined statement of income and changes in net assets for the year ended December 31, 2008, bringing its writeoffs and cumulative fair-value adjustments to \$5 469 million. The decrease in fair value during the year ended December 31, 2008, is due mainly to downgrading of the notes to be received, wider credit spreads and deterioration of the credit market, resulting in lower estimates of the cash flow that will ultimately be received. The decreases in value observed for the high-risk assets and the securities of Devonshire Trust, as well as the commitments and the other particularities of the restructuring plan available at the valuation date, also contributed to this decrease.

The estimated fair value of the ABCP investments as at December 31, 2008, is not likely to be indicative of their definitive value or future fair value. Although management believes that its valuation technique is appropriate in the circumstances, changes to the main assumptions, including those used to determine the discount rates, the credit spreads, the expected returns, the credit risk of the underlying assets and the value of the various commitments and collateral, could have a material impact on the fair value of the new notes and the other ABCP securities in the years to come. Accordingly, resolution of these uncertainties could mean that the definitive value of the investments in subsequent periods differs considerably from management's current best estimates.

The most important assumptions regarding the model used by the Caisse to determine fair value are based on the financial impact of collateral calls, the default risk of the underlying assets, the loss rate in the event of default and the discount rates. The possible effect on the valuation technique of the variation in these assumptions and probabilities would change the estimated fair value of the ABCP investments as at December 31, 2008, as follows:

- An increase of 100 basis points in the financing premium in respect of the margin funding facilities would decrease the fair value by about \$395 million;
- An increase of 100 basis points in the estimated discount rate would decrease the fair value by about \$465 million; and
- A decrease in the expected credit rating of one notch would affect the anticipated default rates and would decrease the fair value by about \$381 million.

The Caisse holds or has access to the funds required to meet all its financial, operational and regulatory obligations, and does not expect the illiquidity related to the ABCP to have a significant adverse impact on its financial health, credit rating or capital ratios.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Effect of the results on valuation (cont'd)****SUBSEQUENT EVENTS**

In January 2009, the Caisse received the following assets after the completion of the third-party ABCP restructuring under the Pan-Canadian Investors Committee's agreement:

	Notional amount	Fair value ²	% of notes held
Liquid assets ¹	939	939	n.a.
MAV 1			
Class A-1	4 708	3 504	62%
Class A-2	3 951	2 913	62%
Class B	674	89	62%
Class C	289		62%
Tracking notes for high-risk assets	814		64%
MAV 2			
Class A-1	120	83	2%
Class A-2	38	27	1%
Class B	7	1	1%
Class C	5		2%
MAV 3			
Tracking notes for traditional assets	738	623	21%
Tracking notes for high-risk assets	76		14%

1 Represents repayment of principal of about \$550 million on traditional assets and payment of \$389 million of interest.

2 As a function of fair values established as at December 31, 2008. The Caisse is of the opinion that the fair value as at January 21, 2009, is much the same as that established as at December 31, 2008.

A subordination sequence is built into the notes: the C notes are subordinate to the B notes, the B notes are subordinate to the A-2 notes, and the A-2 notes to the A-1 notes. This waterfall structure is designed to ensure that the subordinate tranches absorb the first losses so as to immunize the superior tranches. As a result of the waterfall structure, the C and B notes absorb the greatest decreases in value. In December 2008, DBRS issued an A rating for the A-1 and A-2 notes, but did not provide a credit rating for the B and C notes.

The MAV 3 securities received are tracking notes supported by assets that can be divided into three main groups:

- Traditional assets in the amount of \$496 million, consisting of good-quality commercial mortgage securities for which DBRS issued ratings ranging from A to AAA in January 2009;
- Traditional assets in the amount of \$242 million, consisting of interests in U.S. residential mortgage loans, which have been downgraded but are not considered high-risk; and
- High-risk assets representing subprime U.S. residential mortgage loans in the amount of \$76 million.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**b) Third-party and bank-sponsored ABCP (cont'd)****Effect of the results on valuation (cont'd)**

SUBSEQUENT EVENTS (cont'd)

The various restructured notes bear interest at the following rates:

	Classes A-1, A-2 and B
MAV 1	BA + 0.30%
MAV 2	BA – 0.50%

The interest on the B notes is cumulative and is payable only when the principal and interest on the A-1 and A-2 notes have been paid in full.

All the tracking notes bear interest at a rate that will be adjusted as a function of the return on the underlying assets.

At the time of the preparation of these financial statements, there was still no active market for the various restructured notes. Moreover, the ability to transfer the MAV 1 notes is subject to considerable constraints.

The Caisse's ultimate ability to recover its investments in the replacement securities depends on the credit quality of the underlying assets.

The assets underlying the restructured notes can be summarized as follows:

Underlying assets	MAV 1	MAV 2	Other conduits ¹
	%	%	%
LSS	74.6	75.9	75.0
Collateralized debt obligations	12.2	13.5	
Commercial mortgage loans	7.6	6.5	25.0
Canadian non-prime residential mortgage loans	3.1	2.4	
Other assets	2.5	1.7	

¹ The other conduits represent third-party ABCP not covered by the agreement and restructured bank-sponsored ABCP.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

4. INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS (cont'd)**c) Liabilities related to investments**

	2008		2007	
	Fair value	Cost	Fair value	Cost
Securities sold under repurchase agreements				
Canadian	19 161	19 120	30 084	29 786
Foreign	4 596	4 576	6 554	6 647
Commercial paper payable				
Canadian	5 415	5 407	1 990	1 990
Foreign	956	927	46	48
Short selling of securities				
Canadian	4 444	4 856	8 843	8 208
Foreign	3 344	3 304	7 716	7 498
Mortgage loans payable				
Canadian	935	932	277	269
Foreign	2 688	2 859	1 253	1 280
Other loans payable				
Canadian	672	691	1 564	1 553
Foreign	1 605	1 684	557	561
Amount pertaining to derivative instruments				
Canadian	1 277	37	291	20
Foreign	17 519	1 590	6 925	1 709
	<u>62 612</u>	<u>45 983</u>	<u>66 100</u>	<u>59 569</u>

d) Non-controlling interests

	2008		2007	
	Fair value	Cost	Fair value	Cost
Canadian	1 264	1 246	1 408	1 135
Foreign	551	769	643	671
	<u>1 815</u>	<u>2 015</u>	<u>2 051</u>	<u>1 806</u>

5. DEPOSITORS' HOLDINGS

Demand and term deposits bear interest, and constitute indebtedness on the part of the Caisse toward the depositors.

During the year, the Caisse paid \$39 million (\$4 million in 2007) of interest on demand and term deposits.

Participation deposits are expressed in units, and each unit gives its holder a proportionate share in the net equity and the net income of a particular fund. At the end of each monthly period for the General Fund and the individual funds, the net investment income and the gains and losses on the sale of investments are distributed to participation deposit holders. At the beginning of the following period, the amounts distributed are paid out to (recovered from) the depositors' demand deposit accounts.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

5. DEPOSITORS' HOLDINGS (cont'd)

During the year, the Caisse paid \$219 million (\$10 921 million in 2007) in net income to participation deposit holders.

	2008	2007
Caisse's indebtedness toward depositors		
Demand deposits	2 038	143
Term deposits	98	66
Interest on demand and term deposits	2	1
Net income to be paid out to participation deposit holders	980	317
	3 118	527
Participation deposit holders' holdings		
Participation deposits		
Balance, beginning of year	131 560	115 947
Units issued	10 140	16 882
Units cancelled	(7 685)	(1 269)
Balance, end of year	134 015	131 560
Gains (losses) not allocated on the sale of investments	(257)	17 283
Unrealized increase (decrease) in value of investments and other related assets and liabilities	(16 788)	5 980
	116 970	154 823
Depositor's holdings	120 088	155 350

6. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS**a) Investment income**

	2008	2007
Fixed-income securities		
Short-term investments	426	685
Bonds	2 841	2 701
Mortgages (Note 6b)	457	305
	3 724	3 691
Variable-income securities		
Equities and convertible securities	1 639	2 068
Real estate holdings (Note 6c)	830	784
	2 469	2 852
Other income	41	61
Non-controlling interests	(73)	(73)
	6 161	6 531

Investment income – Fixed-income securities were reduced by \$773 million (\$1 221 million in 2007) in net expenses related to securities sold (acquired) under repurchase (reverse repurchase) agreements.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

6. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS
 (cont'd)
b) Net income from mortgages

	2008	2007
Income from mortgages	507	424
Less:		
Expenses related to real estate debt subsidiaries		
Operation expenses	31	50
Financial costs of CMBS	19	69
	50	119
	457	305

c) Net income from real estate holdings

	2008	2007
Income from real estate holdings	2 963	2 482
Less :		
Expenses related to real estate subsidiaries		
Operating expenses related to real estate holdings	1 556	1 335
Operation expenses	88	99
Loan financial expenses	499	285
	2 143	1 719
Other income	10	21
	830	784

d) Gains (losses) on the sale of investments

	2008	2007
Fixed-income securities		
Short-term investments	96	49
Bonds	185	306
Mortgages	(43)	23
	238	378
Variable-income securities		
Equities and convertible securities	(22 828)	8 789
Real estate holdings	(507)	458
	(23 335)	9 247
Non-controlling interests	(9)	(48)
	(23 106)	9 577
Less:		
Transaction costs of investments	122	150
	(23 228)	9 427

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

6. INVESTMENT INCOME, GAINS (LOSSES) ON THE SALE OF INVESTMENTS, AND UNREALIZED INCREASE (DECREASE) IN VALUE OF INVESTMENTS AND LIABILITIES RELATED TO INVESTMENTS
 (cont'd)
d) Gains (losses) on the sale of investments (cont'd)

Gains (losses) on the sale of investments in bonds include \$171 million of losses on the write-off of assets related to third-party and bank-sponsored ABCP.

In addition, losses in the amount of \$23 228 million (gains of \$9 427 million in 2007) on the sale of investments recorded in the "Combined statement of income and changes in net assets" include \$5 572 million in foreign exchange losses (\$1 096 million in foreign exchange gains in 2007).

e) Unrealized increase (decrease) in value of investments and liabilities related to investments

	2008	2007
Fixed-income securities		
Short-term investments	1 689	217
Bonds	4 496	(1 291)
Mortgages	(325)	(124)
Securities acquired under reverse repurchase agreements	(164)	155
	5 696	(1 043)
Variable-income securities		
Equities and convertible securities	(13 733)	(3 144)
Real estate holdings	(1 344)	1 105
	(15 077)	(2 039)
Total investments	(9 381)	(3 082)
Less:		
Liabilities related to investments		
Securities sold under repurchase agreements	(144)	177
Commercial paper payable	39	(1)
Short selling of securities	(1 225)	(566)
Mortgage loans payable	(149)	(35)
Other loans payable	(105)	(23)
Derivative financial instruments	11 682	3 162
Non-controlling interests	(445)	64
	9 653	2 778
	(19 034)	(5 860)

The unrealized decrease in value in the amount of \$19 034 million (\$5 860 million in 2007) recorded in the "Combined statement of income and changes in net assets" includes an unrealized increase in value of \$7 920 million related to foreign exchange (unrealized decrease in value of \$3 633 million related to foreign exchange in 2007).

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

7. OPERATING EXPENSES

	2008	2007
Salaries and employee benefits	129	140
Professional services	52	45
Data services and subscriptions	18	15
Premises and equipment	17	17
Depreciation of fixed assets	19	15
Other	15	15
	250	247
Safekeeping of securities	13	14
	263	261

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS

The Caisse implemented a number of policies, guidelines and procedures to oversee operations. Investment policies oversee the range of activities performed at the portfolio managers level. For each specialized portfolio, the investment policy describes the philosophy, management type, investment universe, benchmark index, added value target and risk supervision, which includes concentration limits. Managers are aware of and must abide by the limits on their investment operations.

At the Caisse, risk management is based on an integrated risk management policy adopted by the Board of Directors. This policy, which is revised on a regular basis, is intended to promote a risk management culture and ensure appropriate risk management practices to help the Caisse better achieve its mission with depositors. More specifically, the risk management policy defines the governance and management of risk within the Caisse and establishes the level of risk that is acceptable in order to avoid excessive loss. In addition, this level of risk is related to the targeted value added to net assets, and promotes the efficient allocation of risk.

The governance of risk management is supported by three levels of control:

Level 1 – portfolio managers are primarily responsible for managing the risks related to their daily operations;

Level 2 – the Depositors and Risks committees (DRC and DRC – Transactions) and the Management committee; and

Level 3 – the Board of Directors and its Risk Management Committee, and Internal Audit.

The risk management policy includes reporting mechanisms for each of these levels. The policy also includes a framework for outsourcing management of investments, management of operational risks and management of derivative financial instruments.

To ensure the objectivity and rigour required to manage risks adequately, teams that are independent of portfolio managers are responsible for defining and monitoring the integrated risk management policy as well as the investment policies applying to the specialized portfolios.

The integrated risk management policy defines financial risks as follows:

- a) Market risk
- b) Credit and concentration risk
- c) Counterparty risk
- d) Financing liquidity risk

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**a) Market risk**

Market risk represents the risk of financial loss deriving from changes in the value of financial instruments. The value of a financial instrument is impacted by changes in certain market variables such as interest rates, exchange rates, share and commodity prices, as well as their volatility. The risk derives from the volatility in the price of a financial instrument, which itself results from the volatility of such market variables.

The Caisse manages all market risks according to an integrated and comprehensive approach whereby major factors contributing to risk, such as industries, countries and issuers, are taken into account in analyzing market risk.

The Caisse can use derivative financial instruments traded either on exchanges or directly with banks and securities dealers, as part of the management of market risks deriving from its operations.

Market risk at the Caisse is measured using the method known as Value at Risk (VaR), which is based on the statistical measurement of the volatility of the market value of each position and its correlations. VaR is a statistical technique used to determine the worst loss expected during a given period based on a predetermined level of confidence. The Caisse uses a level of confidence of 84% in its calculations. The Caisse determines the VaR for each instrument included in all the specialized portfolios and aggregates the information for the overall portfolio.

The Caisse uses the historical simulation approach to estimating the VaR. A horizon of 800 days of observation of risk factors such as variations in exchange rates, interest rates and financial asset prices, is used to evaluate the volatility of returns and the correlation between various asset returns. The historical simulation approach is based essentially on the assumption that the future will be similar to the past. This approach requires that the series of historical data on all the risk factors used to estimate the returns on the instruments be available. In the absence of historical data, alternative methods are used.

The Caisse calculates two types of risk, the absolute risk and the active risk. The absolute risk, or absolute VaR, of the Caisse benchmark portfolio (target portfolio of depositors as a whole), is the result of the risk (volatility) of the benchmark indexes of the asset classes in the portfolio. For example, should depositors as a whole elect to increase the weight of equities in their benchmark portfolios, such risk would increase automatically due to the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (comprised of the actual investments) equates the risk (volatility) of positions included in the overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated using the same method but they relate to different portfolios, the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

The active risk, or VaR related to active management, represents the possibility that the Caisse record a return different from that of its benchmark portfolio as a result of its active management of the overall portfolio. The higher the active risk, the more the expected return from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio, the absolute risk of the overall portfolio and the active risk are measured on a regular basis.

The tables below show the overall portfolio's absolute risk and active risk for each specialized portfolio. The VaR relates to the large majority of assets held by the Caisse. The estimated market risk of instruments not included in the VaR related to the active management is measured on a quarterly basis by the Risk Management Committee of the Board of Directors.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**a) Market risk (cont'd)**

ABSOLUTE RISK OF THE OVERALL PORTFOLIO

(in basis points)	2008		
	December 31, 2008	High	Low
Specialized portfolios			
Short Term Investments (740)	43	44	3
Real Return bonds (762)	849	849	602
Bonds (760)	363	363	331
Long Term Bonds (764)	734	734	643
Canadian Equity (720)	2 620	2 620	1 445
U.S. Equity – hedged (731)	2 535	2 535	1 383
U.S. Equity – unhedged (734)	2 540	2 540	1 546
Foreign Equity – hedged (730)	2 109	2 109	1 245
Foreign Equity- unhedged (733)	1 853	1 853	1 315
Emerging Markets Equity (732)	2 519	2 519	1 723
Québec International (761)	2 063	2 063	1 101
Investments and Infrastructures (781)	4 180	4 180	1 805
Private Equity (780)	3 601	3 601	1 970
Real Estate Debt (750)	780	1 036	488
Real Estate (710)	2 149	2 149	1 178
Commodity Financial Instruments (763)	1 792	1 882	1 666
Hedge Funds (770)	784	863	455
Asset Allocation (771)	66	66	12
Absolute risk of the overall portfolio	1 283	1 283	757

ACTIVE RISK OF THE OVERALL PORTFOLIO

(in basis points)	2008		
	December 31, 2008	High	Low
Specialized portfolios			
Short Term Investments (740)	56	56	10
Real Return bonds (762)	97	97	43
Bonds (760)	98	98	42
Long Term Bonds (764)	110	110	47
Canadian Equity (720)	245	263	210
U.S. Equity – hedged (731)	135	195	98
U.S. Equity – unhedged (734)	133	161	100
Foreign Equity – hedged (730)	81	173	67
Foreign Equity- unhedged (733)	82	214	59
Emerging Markets Equity (732)	184	252	184
Québec International (761)	159	194	33
Investments and Infrastructures (781)	2 607	2 607	1 066
Private Equity (780)	1 800	1 800	1 068
Real Estate Debt (750)	539	811	290
Real Estate (710)	390	390	209
Commodity Financial Instruments (763)	153	307	84
Hedge Funds (770)	249	339	69
Asset Allocation (771)	274	274	24
Active risk of the overall portfolio	444	444	213

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**a) Market risk (cont'd)**

EXCHANGE RISK

The exchange risk represents the risk that the fair value or future cash flows of a financial instrument fluctuate due to variations in foreign currency prices. This risk is integrated in the overall measurement of VaR.

Also, as part of its exchange risk management, the Caisse uses instruments negotiated with banks; maturities generally range from one to twelve months for forward contracts and options, and from one to two years for foreign currency swaps. Upon maturity, new derivative financial instruments are negotiated in order to maintain effective long-term management of foreign exchange risks associated with investments and liabilities related to investments in foreign currencies.

The table below shows a summary of the allocation in foreign currency denominated net investments and amounts related to derivative products.

	December 31, 2008						Total
	Currency ¹					Subtotal	
	Canadian dollar	US dollar	Euro	GBP	Other		
Investments							
Fixed-income securities	73 839	11 964	1 952	1 555	2 761	18 232	92 071
Equities and convertible securities	12 055	18 077	5 912	3 346	6 503	33 838	45 893
Real estate holdings	11 884	4 245	5 341	762	684	11 032	22 916
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	2 900	1 916		54	810	2 780	5 680
Amount pertaining to derivative instruments	2 465	11 037	1 365	607	459	13 468	15 933
	103 143	47 239	14 570	6 324	11 217	79 350	182 493
Liabilities related to investments							
Conventional debt	30 657	6 350	2 674	1 283	2 852	13 159	43 816
Amount pertaining to derivative instruments	1 277	14 146	2 298	524	551	17 519	18 796
	31 934	20 496	4 972	1 807	3 403	30 678	62 612
Subtotal	71 209	26 743	9 598	4 517	7 814	48 672	119 881
Non-controlling interests	1 264	170	42	339		551	1 815
Net investments	69 945	26 573	9 556	4 178	7 814	48 121	118 066

1 Investments are presented under the currency they are denominated in and are translated into Canadian dollars.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**a) Market risk** (cont'd)

EXCHANGE RISK (cont'd)

	December 31, 2007						
	Currency ¹						
	Canadian dollar	US dollar	Euro	GBP	Other	Subtotal	Total
Investments							
Fixed-income securities	93 031	16 223	2 549	2 028	3 003	23 803	116 834
Equities and convertible securities	14 833	25 664	8 225	8 105	10 327	52 321	67 154
Real estate holdings	13 184	3 406	4 543	1 132	175	9 256	22 440
Amounts receivable with respect to investments							
Securities acquired under reverse repurchase agreements	2 462	2 235	925	447	1 374	4 981	7 443
Amount pertaining to derivative instruments	536	7 338	658	193	201	8 390	8 926
	124 046	54 866	16 900	11 905	15 080	98 751	222 797
Liabilities related to investments							
Conventional debt	42 830	8 740	2 480	1 349	3 485	16 054	58 884
Amount pertaining to derivative instruments	291	5 996	638	105	186	6 925	7 216
	43 121	14 736	3 118	1 454	3 671	22 979	66 100
Subtotal	80 925	40 130	13 782	10 451	11 409	75 772	156 697
Non-controlling interests	1 408	107	63	473		643	2 051
Net investments	79 517	40 023	13 719	9 978	11 409	75 129	154 646

1 Investments are presented under the currency they are denominated in and are translated into Canadian dollars.

The translation of the fair value of foreign currency investments into Canadian dollars results in a market impact of +\$11 285 million (-\$8 161 million in 2007). The impact of exchange rate hedging operations related to a portion of such investments is -\$8 937 million (+\$5 624 million in 2007). The net impact on net investment income is +\$2 348 million (-\$2 537 million in 2007).

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**a) Market risk (cont'd)**

INTEREST RATE RISK

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. All of the interest bearing assets and liabilities as well as their effective rates are shown later in a table presenting the exposure to liquidity risk. This risk is integrated in the overall measurement of VaR.

PRICE RISK

Price risk is the risk that fair value or future cash flows fluctuate due to changes in market prices (other than changes deriving from the interest rate and foreign exchange risk), whether such changes derive from characteristics of the instrument itself or its issuer, or from elements affecting all similar financial instruments negotiated on the market. This risk is integrated in the overall measurement of VaR.

b) Credit and concentration risk

Credit risk is the possibility of a loss of market value in the event that a borrower, endorser, guarantor or counterparty does not honour its obligation to repay a loan or to fulfill any other financial commitment, or sees its financial situation deteriorate.

The analysis of concentration risk measures the fair value of a group of financial products (fixed-income and variable-income securities) related to a single issuer or a group of issuers¹ with similar characteristics (geographical area, industry, credit rating).

The concentration limit by group of issuers was set at 3% of the Caisse's total assets, with the exception of securities issued by the Government of Canada, the Government of Québec or another Canadian province or territory, as well as by their departments and agencies, which are not subject to concentration limits². Sovereign issuers with a credit rating of AAA are also excluded from this limit on concentration.

As at December 31, 2008, the concentration by credit rating of the Caisse's group of issuers was as follows:

	Value in % of investments ³
Credit rating: ⁴	
AAA-AA	23.5%
A	15.3
BBB	5.6
BB or lower	2.5
No credit rating:	
Real estate assets	20.1
Third-party and bank-sponsored ABCP ⁵	4.7
Private equity	7.1
Private equity funds and hedge funds	9.0
Mortgages and mortgage securities	7.1
Other	5.1
Total	100.0%

1 A group of issuers represents a number of issuers under the control of a parent company.

2 The exposure to an issuer deriving from positions in derivative financial instruments is not accounted for in the concentration risk analysis.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**b) Credit and concentration risk (cont'd)**

- 3 The percentage of investments represents net positions by group of issuers.
- 4 Credit ratings are obtained from major credit rating agencies and are aggregated according to an algorithm developed in house. For purposes of this concentration, the only ratings used are long-term credit ratings from major credit rating agencies.
- 5 As state in note 4b, the new MAV 1 and MAV 2 notes resulting from the restructuring of third-party and bank-sponsored ABCP will be rated A.

The analysis of credit risk includes measuring the probability of default and the rate of recovery on debt securities held by the Caisse, as well as monitoring the changes in the credit ratings of issuers and groups of issuers whose securities are held in the Caisse portfolios.

In 2008, the major credit rating agencies increased the long-term credit rating of 115 groups of issuers held in the Caisse portfolios, while 223 groups of issuers were awarded lower ratings.

In the table above, groups of issuers for which no credit rating is available were categorized. For most of these groups, the absence of a credit rating is explained by the private quality of the investments, the absence of any debt, the restructuring of investments or a combination of these elements.

In the case of mortgages not awarded a credit rating, the analysis of credit risk is based in part on the loan-to-value ratio. In this ratio, the amount of the loan is divided by the market value of any asset received as collateral at the subscription date or the date funds were awarded, or at any other moment during the term of the loan.

The table below shows the breakdown of mortgages by stratum of the loan-to-value ratio:

Loan-to-value ratio	Value in % of mortgages
0 to 55%	11.6%
55 to 65%	26.8%
65 to 75%	45.0%
75 to 85%	16.4%
More than 85%	0.2%

It is important to note that the Caisse manages all loans and obligations, including mortgages and private corporate bonds, following the same approach as for any financial asset in the bonds portfolio, which means in terms of total return rather than based on the various factors that can affect fair value such as the credit risk.

c) Counterparty risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving over-the-counter derivative financial instruments.

Transactions involving derivative financial instruments are negotiated with financial institutions whose credit rating is established by a recognized credit rating agency and whose operational limits are specified by management. In addition, the Caisse signs agreements making it possible to benefit from the offsetting effect of amounts at risk and the exchange of collaterals in order to limit its net exposure to this credit risk.

Risk is measured by counterparty, according to the agreement in effect, on the basis of which it is possible to calculate the net exposure resulting from over-the-counter derivative financial instruments and collaterals exchanged.

As at December 31, 2008, the Caisse's net exposure to counterparty risk totalled \$496 million and involved 68 active counterparties.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**d) Financing liquidity risk**

The financing liquidity risk corresponds to the possibility that the Caisse may not always be able to fulfill its commitments without having to obtain funds at abnormally high prices or sell assets.

Compliance with established rules is monitored on a monthly basis, and the liquidity status is determined daily. The Caisse uses various scenario simulations to estimate the potential impact on cash. Cash managers evaluate the liquidity of markets on which the Caisse obtains financing for its operations. They also ensure the Caisse is active on various financial markets and maintains relationships with credit rating agencies that rate the Caisse as well as capital providers.

The table below presents a summary of maturities at par value of investments and liabilities related to investments.

	2008					2007	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effective interest rate	Total par value	Effective interest rate
Fixed-income securities							
Short-term investments							
Canadian	6 125	68		6 193	2.5%	9 913	4.8%
Foreign	4 423	12		4 435	4.5	4 810	6.9
	10 548	80		10 628	3.3	14 723	5.5
Bonds							
<i>Securities issued or guaranteed</i>							
<i>by :</i>							
Canadian government	1 295	5 152	7 640	14 087	2.9	21 376	4.2
Province of Québec	257	697	7 037	7 991	4.7	7 088	4.9
Other Canadian provinces		63	2 841	2 904	4.6	2 173	4.7
Municipalities and other							
Canadian bodies	369	450	843	1 662	4.8	1 772	5.1
Canadian government							
corporations	90	5 408	3 883	9 381	4.0	11 855	4.6
U.S. government			886	886	3.7	198	4.3
Other foreign governments	180		1 504	1 684	3.6	1 720	2.9
Mortgage securities							
Canadian	6	234	57	297	12.3	307	12.2
Foreign	2 357	356	3 608	6 321	11.6	3 053	11.1
Canadian corporations	3 443	1 995	7 921	13 359	4.5	16 386	5.3
Foreign corporations	1 800	649	1 934	4 383	5.5	5 153	6.7
Inflation-indexed securities							
Canadian		17	392	409	2.1	630	2.1
Foreign	98	282	1 684	2 064	1.3	3 178	1.8
	9 895	15 303	40 230	65 428	4.7	74 889	4.9
Third-party and bank-sponsored ABCP			12 787	12 787		12 607	
Mortgages							
Canadian	2 987	1 670	1 780	6 437	6.0	5 946	7.0
Foreign	4 185	998	555	5 738	6.0	4 574	7.8
	7 172	2 668	2 335	12 175	6.0	10 520	7.3
	27 615	18 051	55 352	101 018	4.8%	112 739	5.3%

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

8. IDENTIFICATION AND MANAGEMENT OF RISKS RELATED TO INVESTMENT OPERATIONS (cont'd)**d) Financing liquidity risk (cont'd)**

	2008				2007	
	Less than 2 years	2 to 5 years	More than 5 years	Total	Effec- tive interest rate	Total par value
						Effec- tive interest rate
Amounts receivable with respect to investments						
Securities acquired under reverse repurchase agreements						
Canadian	2 901			2 901	1.6%	2 525
Foreign	2 780			2 780	0.2	4 603
	<u>5 681</u>			<u>5 681</u>	<u>0.9%</u>	<u>7 128</u>
						<u>3.5%</u>
Liabilities related to investments						
Securities sold under repurchase agreements	23 636			23 636	2.1%	36 573
Commercial paper payable	6 388			6 388	2.3	2 050
Short selling of securities		324	2 144	2 468	2.8	8 678
Mortgage loans payable	1 052	2 396	343	3 791	5.6	1 549
Other loans payable	2 227	255		2 482	2.5	2 128
	<u>33 303</u>	<u>2 975</u>	<u>2 487</u>	<u>38 765</u>	<u>2.6%</u>	<u>50 978</u>
						<u>4.2%</u>

9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value fluctuates on the basis of the underlying asset, and which do not require holding or delivering the underlying asset itself. This underlying value may be of a financial nature (interest rate, foreign currency, stock market security or index) or a commodity (precious metal, foodstuff or oil).

The notional amount of a derivative financial instrument represents the value of the notional principal to which a rate or a price applies to determine the exchange of future cash flows, and does not reflect the credit risk pertaining to the instrument.

The Caisse uses derivative financial instruments that include the following:

Forward contracts and futures contracts are undertakings that enable the purchase or sale of an underlying value, the quantity and price of which are determined in the contract, which includes a predetermined delivery date. A forward contract involves customized conditions negotiated directly between the parties on the over-the-counter market. A futures contract has terms and conditions determined by an organized market.

A swap is a transaction whereby two parties agree to exchange financial returns on predetermined conditions that include a notional amount and a term.

An option is a contract negotiated by mutual agreement or traded on an organized market that gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index or commodity, at a strike price stipulated in advance, either at a determined date or at any time before a specified maturity date.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

9. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Foreign exchange risk arises from investments and liabilities related to investments denominated in foreign currencies, as well as from related derivative financial instruments.

Derivative instruments that are traded on exchanges or with banks and securities dealers are used to manage the interest rate and market risks of the total investment portfolio, as well as to generate income from transactions, which is included in investment income from fixed-income and variable-income securities.

a) Summary of derivative financial instruments

	2008			2007
	Notional amount	Assets	Fair value Liabilities	Net amount
Foreign exchange risk management				
Foreign currency swaps				
Purchases	2 296	8	159	302
Sales	1 221	5	277	(10)
Forward contracts	21 727	552	1 957	769
Over-the-counter foreign currency options				
Purchases	636	17	17	5
Sales	465		9	(9)
	<u>26 345</u>	<u>582</u>	<u>2 402</u>	<u>1066</u>
Interest rate and market risk management				
Interest rate and foreign currency swaps	153 225	5 857	5 876	(117)
Equity swaps	39 766	1 291	1 798	196
Credit risk swaps	19 618	1 038	1 076	18
Commodity swaps	16 677	2 300	1 881	43
Forward contracts	76 266	1 854	2 885	(39)
Futures contracts	38 613			
Over-the-counter options				
Purchases	57 516	2 644		1 892
Sales	55 041		2 680	(1 414)
Exchange-traded options				
Purchases	11 641	326		242
Sales	12 699		198	(234)
Warrants	128	41		57
	<u>481 190</u>	<u>15 351</u>	<u>16 394</u>	<u>644</u>
Total derivative financial instrument contracts	<u>507 535</u>	<u>15 933</u>	<u>18 796</u>	<u>1710</u>

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

COMBINED FUNDS

NOTES TO FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in millions of dollars)

9. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)**b) Summary of derivative financial instrument maturities**

	2008				2007
	Notional amount – Maturity				Notional amount
	Less than 2 years	2 to 5 years	More than 5 years	Total	
Foreign exchange risk management					
Foreign currency swaps					
Purchases	881	1 415		2 296	1 804
Sales	93	579	549	1 221	1 742
Forward contracts	21 610	9	108	21 727	45 758
Over-the-counter foreign currency options					
Purchases	421	203	12	636	171
Sales	421	44		465	
	<u>23 426</u>	<u>2 250</u>	<u>669</u>	<u>26 345</u>	<u>49 475</u>
Interest rate and market risk management					
Interest rate and foreign currency swaps	24 271	46 954	82 000	153 225	225 677
Equity swaps	26 636	267	12 863	39 766	57 553
Credit risk swaps	5 394	12 776	1 448	19 618	20 124
Commodity swaps	14 551	2 126		16 677	25 729
Forward contracts	70 955	5 311		76 266	44 007
Futures contracts	16 512	17 784	4 317	38 613	48 223
Over-the-counter options					
Purchases	34 462	11 794	11 260	57 516	66 286
Sales	29 430	14 530	11 081	55 041	60 896
Exchange-traded options					
Purchases	11 231	410		11 641	46 280
Sales	12 181	518		12 699	31 087
Warrants	56	48	24	128	210
	<u>245 679</u>	<u>112 518</u>	<u>122 993</u>	<u>481 190</u>	<u>626 072</u>
Total derivative financial instruments contracts	<u>269 105</u>	<u>114 768</u>	<u>123 662</u>	<u>507 535</u>	<u>675 547</u>

10. SECURIZATIONS

During the year, no securitization operations were performed by Caisse subsidiaries (\$2 273 million in 2007).

In the course of Caisse securitization operations, CMBS and notes payable acquired by the Caisse over the last few years from a collateralized security entity are recorded in the “Combined statement of net assets” under Mortgages securities. As at December 31, 2008, these securities amounted to \$648 million (\$1 699 million in 2007). Securitization operations have allowed companies under common control to generate management fees representing \$21 million during the year (\$4 million in 2007). No losses are expected owing to the nature and quality of such loans.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**COMBINED FUNDS****NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in millions of dollars)

11. COMMITMENTS AND CONTINGENCIES

Given the nature of its operations, the Caisse has a number of commitments.

Commitments to buy investments mean the Caisse is committed to buying investments that will be settled in the coming financial years, in accordance with the terms and conditions in each agreement.

For the Caisse, collaterals and loan guarantees consist in securing future income deriving from the sale of investments and transactions on derivatives as well as the reimbursement of loans made by investee companies to financial institutions and corporations. Collaterals related to the reimbursement of loans have no specific maturity date, except in some cases, where terms vary between one to nine years.

	2008	2007
Commitments to buy investments	16 277	20 940
Collaterals and loan guarantees (maximum amount)	802	803
Third-party and bank-sponsored ABCP ¹	6 790	5 153
	<u>23 869</u>	<u>26 896</u>

1 For the description of the commitments related to third-party and bank-sponsored ABCP, refer to note 4b.

12. COLLATERALS

In the normal course of business, the Caisse conducts transactions involving the lending and the borrowing of securities and on derivative products, in exchange for collaterals or assets, with various counterparties with which clearing agreements have been concluded to limit credit risk. In such transactions, the Caisse received assets as collateral. As at December 31, 2008, the Caisse had pledged and received as collateral assets for amounts of \$36 959 million and \$7 070 million (\$51 656 million and \$11 330 million in 2007) respectively. The amount of assets pledged as collateral includes assets with a value of \$2 281 million (\$723 million in 2007), which were pledged with depositaries to participate in clearing and payment systems.

13. SUBSEQUENT EVENTS

In January of 2009, the Caisse received assets on completion of the restructuration of third-party ABCP under the agreement of the Pan-Canadian Investors Committee. The details of the assets received are given in note 4b under the heading "Subsequent events".

14. COMPARATIVE FIGURES

Certain figures from the 2007 financial statements have been reclassified to conform to the presentation adopted in 2008.

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**MANAGEMENT'S RESPONSIBILITY FOR COMBINED FINANCIAL REPORTING**

Preparation and presentation of the combined financial statements of the Caisse de dépôt et placement du Québec (the “Caisse”) are the responsibility of management. The combined financial statements were prepared in accordance with generally accepted accounting principles (GAAP) in Canada. We ensure that the financial data in the Annual Report are consistent with those in the combined financial statements.

The combined financial statements include amounts based on management’s best estimates and judgment, with due regard for their relative importance. Moreover, in the preparation of the financial data, management has made decisions regarding the information to be presented, has made estimates and has made assumptions that affect the information presented. Future results may differ considerably from our current estimates, because of changes in the financial markets or other events that may have an impact on the fair value of the investments established as at December 31, 2008.

In our responsibility for the reliability of financial information, we use a sophisticated internal control mechanism applied systematically on all levels of the organization. This mechanism consists of organizational and operational controls, financial information disclosure controls and procedures, and internal control over financial information. The Caisse’s internal control mechanism is based, among other things, on a clear definition of responsibilities, effective allocation of duties, delegation of powers, competent resources, appropriate procedures, information systems, tools and practices, relevant and reliable information whose adequacy enables all employees to fulfill their responsibilities, control, compliance and integrated risk management measures that are proportional to the issues specific to each process and designed to reduce risks likely to affect achievement of the Caisse’s objects, and oversight of compliance with an extensive body of internal policies.

This control mechanism makes it possible to ensure that appropriate internal controls are in place as regards operations, assets and records. Moreover, the Caisse’s internal audit group reviews the internal controls on a regular basis. These controls and audits are designed to provide reasonable assurance regarding the reliability of the accounting records used to prepare the combined financial statements and to ensure that assets are not used or disposed of in any unauthorized manner, that liabilities are recorded, and that we meet all the legal requirements to which the Caisse is subject, including the Act respecting the Caisse de dépôt et placement du Québec.

Each year, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant irregularity to the Audit Committee of the Board of Directors of the Caisse, as necessary.

The Auditor General of Québec has audited the combined financial statements of the Caisse, and his report covers the nature and scope of the audit and expresses his opinion. The Auditor General has unrestricted access to the Audit Committee to discuss any matter relating to his audit.

The Board of Directors and its committees supervise the manner in which management fulfills its responsibility for the establishment and presentation of financial information, maintenance of appropriate internal controls, compliance with the requirements of laws and regulations, management of and control over the main risks and evaluation of major transactions. Moreover, it approves the combined financial statements and the Annual Report.

The Board of Directors has approved the combined financial statements as at December 31, 2008. It is assisted in its responsibilities by the Audit Committee, of which all members are outside directors. This Committee meets with management and the Auditor General, examines the combined financial statements and recommends their approval to the Board of Directors.

Fernand Perreault
President and Chief Executive Officer

Ghislain Parent, FCA
Executive Vice-President,
Finance and Operations

Montréal, February 18, 2009

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the combined statement of net assets of the Funds of the Caisse de dépôt et placement du Québec as at December 31, 2008, along with the combined statement of income and changes in net assets for the year then ended. These financial statements are the responsibility of the Caisse's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in Canada. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance that 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 the significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my opinion, these combined financial statements present fairly, in all material respects, the financial position of these Funds as at December 31, 2008, as well as the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles in Canada. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that in my opinion these principles have been applied on a consistent basis with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec City, February 18, 2009

CAPITAL FINANCIÈRE AGRICOLE INC.
(R.S.Q., c. C-38)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Interest on debentures	\$901 186	\$632 131
Other interests	541 154	452 616
Royalties on debentures	154 143	1 672
Fees	88 000	113 625
Dividends	42 125	14 000
	<u>1 726 608</u>	<u>1 214 044</u>
EXPENSES		
Salaries and fringe benefits	759 268	767 078
Transportation and communication	72 491	77 251
Rent	39 799	39 874
Professional and administrative services	221 798	266 090
Supplies and materials	5 956	8 591
Amortization of capital assets	900	899
Interest	56 496	14 893
Doubtful accounts receivable	52 300	
Unrealized decline in value on ABCP investments	4 048 708	2 301 000
Unrealized decline in value on other investments	2 057 407	427 281
Realized decline in value on other investments	279 715	235 483
	<u>7 594 838</u>	<u>4 138 440</u>
DEFICIENCY OF REVENUE OVER EXPENSES BEFORE SHARE	5 868 230	2 924 396
SHARE IN THE LOSS OF SATELLITE CORPORATIONS	<u>50 470</u>	<u>202 480</u>
DEFICIENCY OF REVENUES OVER EXPENSES	5 918 700	3 126 876
OPENING CUMULATED DEFICIT	<u>6 077 015</u>	<u>2 950 139</u>
CLOSING CUMULATED DEFICIT	<u>\$11 995 715</u>	<u>\$6 077 015</u>

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$542 822	\$5 356
Short-term investments		1 812 792
Accounts receivable and accrued interest	214 642	87 926
Instalments receivable on investments (Note 4)	1 307 525	831 768
	<u>2 064 989</u>	<u>2 737 842</u>
Investments (Note 4)	17 432 401	18 732 840
Capital assets		<u>900</u>
	<u>\$19 497 390</u>	<u>\$21 471 582</u>
LIABILITIES		
Current liabilities		
Supplies and expenses payable	\$44 082	\$54 053
Amount owing to La Financière agricole du Québec (Note 5)	4 300 442	507 012
Provision for vacation time	50 237	62 278
	<u>4 394 761</u>	<u>623 343</u>
Amount owing to La Financière agricole du Québec (Note 5)	642 707	477 329
Provision for sick leave (Note 6)	<u>89 628</u>	<u>81 916</u>
	<u>5 127 096</u>	<u>1 182 588</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 8)	26 366 009	26 366 009
Cumulated deficit	<u>(11 995 715)</u>	<u>(6 077 015)</u>
	<u>14 370 294</u>	<u>20 288 994</u>
	<u>\$19 497 390</u>	<u>\$21 471 582</u>

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President
Jacques Desmeules, Director

CAPITAL FINANCIÈRE AGRICOLE INC.STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Deficiency of revenue over expenditure	\$(5 918 700)	\$(3 126 876)
Items not affecting cash flows:		
Capitalized interest on investments	(437 576)	(219 848)
Adjustment of interest on ABCP investments	117 199	
Amortization of capital assets	900	899
Unrealized decline in value on investments	6 106 115	2 728 281
Realized decline in value on investments	314 715	235 483
Share in loss of satellite corporations	50 470	202 480
	----- 233 123	----- (179 581)
Change in non-cash items related to operations:		
Accounts receivable and accrued interest	(126 716)	213 576
Suppliers and expenses payable	(9 971)	19 172
Amount owing to La Financière agricole du Québec	163 808	246 486
Provision for vacation time	(12 041)	(6 979)
Provision for sick leave	7 712	(1 174)
	----- 22 792	----- 471 081
Cash flows related to operating activities	255 915	291 500
INVESTMENT ACTIVITIES		
Acquisition of investments	(4 868 180)	(5 212 500)
Cashing of investments in the form of debentures	694 711	855 777
Cash flows related to investment activities	(4 173 469)	(4 356 723)
FINANCING ACTIVITIES		
Advances from La Financière agricole, cash flows related to financing activities	3 795 000	505 000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(122 554)	(3 560 223)
OPENING CASH AND CASH EQUIVALENTS	1 818 148	16 818 371
Long-term reclassification of asset-backed commercial papers	(1 152 772)	(11 440 000)
CLOSING CASH AND CASH EQUIVALENTS	\$542 822	\$1 818 148
Closing cash and cash equivalents include:		
Cash on hand	\$542 822	\$5 356
Short-term investments		1 812 792
	----- \$542 822	----- \$1 818 148
Additional cash flow-related information:		
Interest paid	\$56 762	\$14 177

The notes are an integral part of these financial statements.

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. STATUS AND NATURE OF ACTIVITIES

Capital Financière agricole inc. (Corporation) is a corporation incorporated under Part 1A of the *Québec Companies Act* (R.S.Q., c. C-38). Using venture capital, it supports projects structuring the development of agricultural production, processing in the regions and products and services upstream or downstream of the farm sector, provided that these projects present a significant advantage for the primary sector.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are establishment of investments' fair value and the provision for vacation time and sick leave. Real results may differ from these estimates.

Financial instruments

a) Initial measurement

Financial instruments are reported at their fair value on the date of the transaction.

b) Categories of financial instruments and subsequent measurement

Assets and liabilities held for transaction purposes

The assets and liabilities held for transaction purposes are financial instruments acquired or transferred primarily for resale or repurchase in the short term. They belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking. Assets and liabilities not respecting the above-mentioned criteria may be irrevocably designated as held for the Corporation's transaction purposes.

The assets and liabilities held for transaction purposes are measured at their fair value and the gains and losses resulting from their reassessment at fair value are posted to operations.

Financial assets include cash, short-term investments and accounts receivable and accrued interest. Financial liabilities include accounts payable and expenses payable and amounts owing to La Financière agricole du Québec. The Corporation also irrevocably designated long-term investments in satellite corporations.

Other financial liabilities

Other financial liabilities include all liabilities not classified as held for transaction purposes. They are measured at cost after amortization using the effective interest rate method, if applicable. For the Corporation, this generally corresponds to cost. Management classified the amount owing to La Financière agricole and shown as long-term in this category.

Debentures

When the quality of a debenture investment's credit has deteriorated to the point that the Corporation is no longer reasonably certain of recovering all of the capital and interest, interest income is no longer recorded.

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Investments in satellite corporations**

The Corporation reports its investments at consolidation value minus all permanent declines in value, where applicable, when its participation in an issuing corporation's voting shares allow it to exercise considerable influence on this satellite corporation's financial and administrative decisions.

Capital assets

Materials and equipment are recorded at acquisition cost and amortized over their service life using the straight-line method and a rate of 33.33%.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-employer Government defined-benefit plans, given that the Corporation lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is Capital Financière agricole inc.'s policy to present bank balances and investments that are easily convertible in the short-term to a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Fair value

The fair value of financial instruments is the amount at which the financial instruments could be knowingly negotiated by the parties concerned. The fair value is established using prices from an active market. If this is not the case, the fair value is based on market prices prevailing for financial instruments with similar features and risk profiles or in-house or external measurement models using data that is observable on the market.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

On April 1, 2008, the Corporation adopted the following three new accounting standards released by the Canadian Institute of Chartered Accountants (CICA): Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation", whose information disclosure requirements are reviewed and reinforced. Section 1535 seeks to inform users about the entity's capital and how it is managed. Since these sections specifically target disclosures, they do not affect the Corporation's results.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. INVESTMENTS**

	2009	2008
Third-party asset-backed commercial paper (ABCP)	<u>\$6 125 865</u>	<u>\$9 139 000</u>
Common shares – investments	885 000	1 720 000
Common shares – satellite corporations	<u>3 035 219</u>	<u>1 512 394</u>
	<u>3 920 219</u>	<u>3 232 394</u>
Debt securities, 8% to 15%, maturing by April 2020. Capital and capitalized interest are cashable as follows: \$1 210 994 in 2010, \$1 795 406 in 2011, \$2 126 004 in 2012, \$1 537 364 in 2013 and \$3 957 283 for future fiscal years.	8 693 842	7 193 214
Instalments receivable in the short term	<u>(1 307 525)</u>	<u>(831 768)</u>
	<u>7 386 317</u>	<u>6 361 446</u>
	<u>\$17 432 401</u>	<u>\$18 732 840</u>

Under an Order-in-Council of December 11, 2002, Capital Financière agricole inc. and the parent company La Financière agricole du Québec (the Group) are authorized to extend loans, take advances and make contributions or financial commitments in favour of a physical person, legal person or corporation for an amount not exceeding \$5 million. Moreover, the Group may not hold more than 49% of the voting shares in a company or legal person. Further, the Corporation's Board of Directors has adopted an investment policy that sets maximum investments per entity at \$2 million.

Third-party asset-backed commercial paper (ABCP)

Since August 13, 2007, Capital Financière agricole inc. holds investments on the Canadian asset-backed commercial paper (ABCP) market not backed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee approved an agreement in principle to restructure the series linked to ABCPs issued by 20 trusts.

On April 25, 2008, ABCP note holders voted in favour of the restructuring plan (Plan), whose implementation was finalized on January 21, 2009.

In keeping with the Plan, the ABCPs in question were replaced by new, longer-term variable-rate notes designed to better correspond to the underlying assets' maturity dates. The Plan also provides, in certain cases, for regrouping certain assets and creating new margin funding facilities to support any security calls that might occur.

The ABCP series in question, underwritten in full or part by synthetic assets, were regrouped into the following master asset vehicles (I and II):

- Master Asset Vehicle I (MAV I) is a newly-created vehicle for investors who have chosen to commit their prorated share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle II (MAV II) is a newly-created vehicle for investors who have chosen to commit less than their prorated share (or no share) of a margin funding facility, in which case the remaining portion will be funded by third parties.

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. INVESTMENTS (cont'd)****Third-party asset-backed commercial papers (ACBP) (cont'd)**

The MAV I and MAV II margin funding facilities are supplied by several lenders. These facilities are designed to reduce the risk that the new vehicles might not be able to face margin calls should future circumstances make them necessary. Further, a moratorium prohibits margin calls for an 18-month period.

Regarding the contribution of assets underwritten by the MAV I and MAV II margin funding facility, investors received a combination of Class A-1, A-2, B and C notes maturing in December 2016. The Class A-1 and A-2 notes received a final credit rating of "A". Assets not eligible under MAV I and MAV II were separated and note holders holding ABCP series backed in part by ineligible assets received tracking notes for the ineligible assets, which reflect the return on the individual underlying assets.

A newly-created vehicle, siloing each series backed exclusively by traditional assets or 100% ineligible assets, was created under the name Master Asset Vehicle III (MAV III). Two main note classes were created under MAV III: traditional asset tracking notes and ineligible asset tracking notes. All notes are linked to net return and the maturity dates of their respective underlying assets.

On January 21, 2009, the Corporation received MAV II notes, whose total face value was \$11 321 808, following ABCP restructuring.

The notes entail a subordination sequence: Class C notes are subordinate to Class B notes, Class B notes are to Class A-2 notes and Class A-2 notes to Class A-1 notes. This cascade structure is designed to ensure that subordinate tranches absorb the initial losses so as to immunize the higher tranches. Due to the cascade structure, Class C and B notes absorb the largest declines in value. In December 2008, DBRS issued "A" rating to Class A-1 and A-2 notes but did not provide a rating for Class B and C notes.

Since there is no active market for the ABCP shares included in the Plan and excluding ineligible assets whose fair value is considered nul at March 31, 2009, in keeping with Canadian Institute of Chartered Accounts (CICA) guidelines, management determined the fair values through actualized cash flow analyses. Following the evaluation, an unrealized decline in value of \$4 048 708 was posted for the fiscal year ended March 31, 2009 (2008: \$2 301 000). Management feels that the estimated fair values posted are reasonable and those that are the most appropriate at March 31, 2009. Nevertheless, these fair values are established using the information available on this date, management's assessment of the financial market situation and assumptions and probabilities. Consequently, the fair values shown may vary significantly in subsequent periods. Possible changes potentially affecting future ABCP values include 1) changes in the value of the underlying assets, 2) changes in the ABCP market's liquidity, 3) the impacts of severe, long-lasting economic slowdown.

At March 31, 2009, Capital Financière agricole inc. held the following third-party ABCP securities:

	Face value	Fair value
ABCs included in the restructuring plan:		
MAV II		
Class A-1	\$5 529 633	\$3 335 371
Class A-2	3 090 947	1 864 533
Class B	561 092	185 705
Class C	283 967	
Ineligible assets	1 856 169	
	<u>11 321 808</u>	<u>5 385 609</u>
ABCs excluded from the restructuring plan	<u>1 152 772</u>	<u>740 256</u>
	<u>\$12 474 580</u>	<u>\$6 125 865</u>

CAPITAL FINANCIÈRE AGRICOLE INC.NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. INVESTMENTS (cont'd)****Third-party asset-backed commercial papers (ACBP) (cont'd)**

At March 31, 2008, Capital Financière agricole inc. held the following third-party ABCP securities:

	Face value	Fair value
Synthetic and hybrid assets	\$9 565 000	\$8 389 000
High-risk assets	1 875 000	750 000
	<u>\$11 440 000</u>	<u>\$9 139 000</u>

Class A-1, A-2 and B notes bear interest at bank acceptance rates minus 0.50%. Interest on Class B notes is cumulative and payable only once the capital and interest on Class A-1 and A-2 notes has been paid in full. Class C notes bear interest at bank acceptance rates plus 20%. This interest is cumulative and payable only once the capital and interest on Class A-1, A-2 and B notes has been paid in full.

Traditional asset and ineligible asset notes bear interest at a rate that is adjusted based on the underlying assets' return.

Interest arrears

On January 21 and May 14, 2009, the Corporation received accrued interest minus restructuring costs for the period running from the purchase date to January 21, 2009. This interest is reported in this fiscal year.

Accrued interest on new notes at March 31, 2009 was not reported.

5. AMOUNT OWING TO LA FINANCIÈRE AGRICOLE DU QUÉBEC

	2009	2008
Interest-free, no terms of repayment	\$442	\$2 012
Bearing interest at rate of 0.70%, maturing until April 27, 2009	4 300 000	505 000
Interest-free, repayable annually up to the amount of the following year's positive profit margin	642 707	477 329
	<u>4 943 149</u>	<u>984 341</u>
Instalments payable in the short term	<u>(4 300 442)</u>	<u>(507 012)</u>
	<u>\$642 707</u>	<u>\$477 329</u>

6. PROVISION FOR SICK LEAVE

	2009	2008
Opening balance	\$81 916	\$83 090
Expenditure for the year	11 202	16 331
Benefits paid during the year	<u>(3 490)</u>	<u>(17 505)</u>
Closing balance	<u>\$89 628</u>	<u>\$81 916</u>

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

6. PROVISION FOR SICK LEAVE (cont'd)**Description**

The Corporation has a sick leave accumulation program, which results in long-term obligations whose cost the Corporation assumes in full.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 132 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure these payments.

Sick leave accumulation program obligations increase as employees render services to the Corporation. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

Subsequent evaluations and estimates

The sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	3.85%
Discount rate	4.46%
Average remaining service period of active employees	9 years

7. PENSION PLANS

Capital Financière agricole inc. staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-employer defined-benefit plans and include guaranteed payments on retirement and death.

The Corporation's contributions posted to results for the fiscal year totalled \$49 831 (2008: \$43 857). Its obligations towards these Government plans is limited to its employer contributions.

8. CAPITAL STOCK**Authorized:**

Unlimited number of class A shares, participating and voting, without nominal value.

Unlimited number of class B shares, participating and voting, redeemable at holder's discretion, as of April 2, 2016, at the book value on the buyback date or fair market value, whichever is higher, without discount for minority ownership, established the date of the buyback request, without nominal value.

Issued and paid:

	2009	2008
24 000 class A shares	\$24 000 000	\$24 000 000
2 637 class B shares	2 366 009	2 366 009
	<u>\$26 366 009</u>	<u>\$26 366 009</u>

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. INFORMATION ON CAPITAL

The Centre defines its capital as the shareholders' equity. The dividends reported are subtracted from the retained earnings for the fiscal year in which they were reported. The Corporation is not subject to any capital-related requirement from an outside source. The Corporation manages its capital by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the intentions specified in its incorporating act.

10. RELATED PARTY TRANSACTIONS

The main transactions with La Financière agricole du Québec, the parent company, were:

	2009	2008
Transportation and communication	\$4 713	\$4 863
Rent	39 799	39 849
Professional and administrative services	153 840	237 595
Interest	56 496	14 893

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Capital Financière agricole inc. is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Corporation did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

11. FINANCIAL INSTRUMENTS**Fair value**

The following methods and assumptions were used to estimate the fair value of the balance sheet's financial instruments:

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

The fair value of listed investments corresponds to their stock market value, unless there are few transactions involving them.

The fair value of these long-term financial instruments, which has no list value, was determined using measurement methods used in venture capital markets. The following assumptions and calculation methods were used:

- The fair value of common shares not traded on active markets is based on in-house or external measurement models using data that is observable on the market.
- The fair value of debentures is obtained after actualizing the cash flows at the market interest rate at fiscal year-end for the corresponding terms.

For the amount owing to La Financière agricole disclosed as long-term, the fair value cannot be determined, given the absence of a market.

	2009		2008	
	Fair value	Cost	Fair Value	Cost
Common shares – investments	\$885 000	\$1 768 180	\$1 720 000	\$1 750 000
Debentures	8 693 842	10 386 687	7 193 214	7 681 832

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS**Risk management linked to financial instruments**

In the normal course of its business, Capital Financière agricole inc. is exposed to various risks, including those related to the use of financial instruments such as debentures, capital stock investments and investment of its liquid assets. The Corporation's goal in managing these risks is to optimize the risk-yield ratio by applying strategies, policies and processes for managing and controlling risks that are integrated into the organization's operations.

Credit risk

The credit risk corresponds to the risk of loss resulting from a debtor's inability to honour its obligations to the Corporation when due.

Credit risk management

The Corporation invests in businesses in the form of debentures and/or capital-stock. Use of these financial instruments may entail the risk of loss resulting from the partner enterprise's failure to perform its contractual obligations.

Credit risk assessment

Credit risk management involves first assessing the promoter's quality, an initial pre-requisite for any sound, careful investment decision.

File coordinators, with a good knowledge of the agrifood activity sector, assess the investment's relevance based on a complete set of factors and criteria used to measure both quantitative and qualitative aspects. This assessment is then reviewed by management.

Authorization process

Investment authorization is based on the conclusions of the business risk assessment. A comprehensive document is presented to the Board of Directors, the decision-making body for this process.

File follow-up

Significant efforts are made to maintain the investment portfolio's quality. Follow-up procedures make it possible to detect credit risk deterioration and take immediate action. Follow-up reports are presented to management and the Board of Directors on a regular basis.

Change in fair value

Changes related to credit risk for the fiscal year caused the fair value of debentures to vary. These changes reduced the fair value of debentures by \$907 886 at March 31, 2009.

Maximum credit risk exposure

At March 31, 2009, maximum credit risk exposure by activity sector was:

	2009	2008
Food processing	\$6 549 621	\$5 661 858
Food distribution	595 186	245 657
Farm production	137 500	237 500
Upstream of agriculture	1 313 888	896 438
	<u>\$8 596 195</u>	<u>\$7 041 453</u>

CAPITAL FINANCIÈRE AGRICOLE INC.

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS (cont'd)**Interest rate risk**

The interest rate risk corresponds to the risk of variation in the financial instruments' fair value resulting from market interest rate fluctuation.

Interest rate risk management

The Corporation is exposed to the interest rate risk corresponding to the eventual repercussions of interest rate fluctuations on net interest income and the economic value of shareholders' equity. The royalties attached to certain debentures attenuate the Corporation's interest rate risk.

Interest rate sensitivity

Had the interest rate varied by 100 basis points, up or down, the fair value of debentures would have been approximately \$200 000 lower or higher.

13. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

MANAGEMENT'S REPORT

The financial statements of Capital Financière agricole inc. (Corporation) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

Capital Financière agricole inc. recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

For Capital Financière agricole inc.,
Jacques Brind'Amour
President

Dominique Vignola
Director General

Richard Couture
Director of Financial and Material Resources
La Financière agricole du Québec

Lévis, May 8, 2009

CAPITAL FINANCIÈRE AGRICOLE INC.

AUDITOR'S REPORT

To Capital Financière agricole inc. shareholders

I have audited the balance sheet of the Capital Financière agricole inc. as at March 31, 2009 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Corporation's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Lévis, May 8, 2009

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
Investment income	\$117 229	\$189 833
Decrease in fair value of participation deposits in a special fund with the Caisse de dépôt et placement du Québec	<u>(157 891)</u>	
EXCESS (DEFICIENCY) FOR FISCAL YEAR	<u><u>\$(40 662)</u></u>	<u><u>\$189 833</u></u>

The notes are an integral part of these financial statements.

CUMULATIVE SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING CUMULATIVE SURPLUS		
Existing balance	\$189 833	\$158 505
Adjustment tied to adoption of an accounting standard at April 1, 2008 (Note 3)	<u>98 966</u>	
Adjusted balance	<u>288 799</u>	<u>158 505</u>
Excess (Deficiency) for fiscal year	(40 662)	189 833
Consolidated Revenue Fund remittance		<u>(158 505)</u>
CLOSING CUMULATIVE SURPLUS	<u><u>\$248 137</u></u>	<u><u>\$189 833</u></u>

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash flows	\$488 882	\$160 440
Demand deposits in the Caisse de dépôt et placement du Québec		
General Fund	61 631	50 426
Investment income receivable	35 108	47 731
Term deposits, rates varying from 0.25% to 4.00%	1 846 845	2 048 564
Accounts receivable	21 908	
Bonds on deposit (Note 4)	202 037	125 463
	<u>2 656 411</u>	<u>2 432 624</u>
Bonds on deposit (Note 4)	682 751	1 058 220
Participation deposits in a Caisse de dépôt et placement du Québec special fund (Note 5)	<u>566 809</u>	<u>786 536</u>
	<u>\$3 905 971</u>	<u>\$4 277 380</u>
LIABILITIES		
Current liabilities		
Management expenses payable	\$4 921	\$4 800
Travels agents' individual security (Note 6)	<u>3 652 913</u>	<u>4 082 747</u>
	3 657 834	4 087 547
CUMULATIVE SURPLUS	<u>248 137</u>	<u>189 833</u>
	<u>\$3 905 971</u>	<u>\$4 277 380</u>

The notes are an integral part of these financial statements.

Louis Borgeat
President, Office de la
protection du consommateur

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGE

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess (deficiency) for the fiscal year	\$(40 662)	\$189 833
Items not affecting cash on hand		
Decrease in fair value of participation deposits in a special fund with the Caisse de dépôt et placement du Québec	157 891	
Capitalization of interest on demand deposit in the Caisse de dépôt et placement du Québec General Fund	(29 289)	(83 142)
Capitalization of term deposits	(48 281)	(28 064)
Capitalization on sale of participation deposits in a Caisse de dépôt et placement du Québec special fund	(21 114)	(26 687)
Change in non-cash items related to operations		
Investment income receivable	12 623	(14 821)
Accounts receivable	(21 908)	5 700
Management expenses payable	121	(350)
	50 043	(147 364)
Cash flows provided by operating activities	9 381	42 469
INVESTMENT ACTIVITIES		
Sale of term deposits	250 000	
Acquisition of demand deposits in the Caisse de dépôt et placement du Québec General Fund	(205 578)	(194 534)
Proceeds from the sale of demand deposits in the Caisse de dépôt et placement du Québec General Fund	223 662	350 000
Acquisition of participation deposits in a Caisse de dépôt et placement du Québec special fund	(23 662)	
Proceeds on sale of participation deposits in a Caisse de dépôt et placement du Québec special fund	205 578	194 534
Cash flows provided by investment activities	450 000	350 000
FINANCING ACTIVITIES		
Decrease in travel agents' individual securities (Note 6)	(130 939)	(231 108)
Instalment to Consolidated Revenue Fund		(158 505)
Cash flows used for financing activities	(130 939)	(389 613)
CHANGE IN CASH FLOWS	328 442	2 856
OPENING CASH FLOWS	160 440	157 584
CLOSING CASH FLOWS	\$488 882	\$160 440

The notes are an integral part of these financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. COMPOSITION AND OPERATION

The travel agents' individual securities consist of securities in an amount determined by Government regulation under the *Travel Agents Act* (R.S.Q., c. A-10) and administered by the President of the Office de la protection du consommateur. Their purpose is to guarantee compliance with the Act and its regulations.

Interest coupons attached to bonds held on deposit remain the depositor's property and are returned to the depositor on request.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management has used estimates is financial instruments' fair value. Real results may differ from the best estimates by the Office de la protection du consommateur's general secretary.

FINANCIAL INSTRUMENTS

a) Initial measurement

Financial instruments are reported at their fair value the date of the transaction.

b) Category of financial instrument and subsequent measurement

Assets and liabilities held for transaction purposes

The assets and liabilities held for transaction purposes are financial instruments acquired primarily for resale in the short term for profit or that belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking. This category also includes assets and liabilities not respecting the above-mentioned criteria can be irrevocably designate as held for transaction purposes by travel agents' individual securities.

Assets and liabilities held for transaction purposes are measured at their fair value. The gains and losses resulting from their reassessment at fair value are reported under result.

Cash and demand deposits in the Caisse de dépôt et placement du Québec's General Fund are classified as assets held for transaction purposes. Further, investment income receivable, term deposits, accounts receivable, bonds deposited, participation deposits in a Caisse de dépôt et placement du Québec special fund, management costs payable and travel agents' individual securities were irrevocably designated for transaction purposes.

FAIR VALUE

The fair value of financial instruments is the amount at which the financial instruments could be knowingly negotiated by the parties concerned. The fair value is established using prices from an active market. If this is not the case, the fair value is based on market prices prevailing for financial instruments with similar features and risk profiles or in-house or external measurement models using data that is observable on the market.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

3. CHANGES IN ACCOUNTING POLICIES

On April 1, 2008, the following accounting standards released by the Canadian Institute of Chartered Accounts (CICA) were adopted: Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation".

These standards were applied prospectively without reworking the comparative financial statements.

Financial instruments – recognition and measurement

Financial assets, governed by Section 3855, are classified into one of the following categories: held for transaction purposes, available for sale, held until maturity or loans and receivables. Financial liabilities, governed by Section 3855, are classified into one of the following categories: held for transaction purposes, or other financial liabilities.

Section 3855 allows entities to designate any financial instrument as held for transaction purposes when it is initially recognized or when this standard is adopted regardless of whether the financial instrument corresponds to the definition of a financial instrument held for transaction purposes. Financial instruments classified as held for transaction purposes under the fair value measurement option must have a reliable fair value. Financial instrument classification is disclosed in Note 2.

Effect of adopting Section 3855

Fair value adjustments resulting from classifying certain assets as financial instruments as assets held for transaction purposes are recognized in the opening balance of the cumulated surplus at April 1, 2008 in keeping with the transitional provisions foreseen. The impact is a \$98 966 increase in the cumulated surplus.

Adjustments resulting from the adoption of Section 3855 can be summarized as follows:

	As at March 31, 2008	Effect of change in accounting policy	As at April 1, 2008
Current assets	\$2 307 161		\$2 307 161
Bonds on short-term deposit	125 463	\$8	125 471
Bonds on long-term deposit	1 058 220	(42 038)	1 016 182
Participation deposits in a Caisse de dépôt et placement du Québec special fund	786 536	98 966	885 502
	<u>\$4 277 380</u>	<u>\$56 936</u>	<u>\$4 334 316</u>
Current liabilities	\$4 800		\$4 800
Travel agents' individual security	4 082 747	\$(42 030)	4 040 717
Cumulative surplus	189 833	98 966	288 799
	<u>\$4 277 380</u>	<u>\$56 936</u>	<u>\$4 334 316</u>

Financial instruments – disclosures and presentation

Sections 3862 and 3863 define the standards for presenting financial instruments and specify the information to be provided in their regard. Adoption of these chapters is reflected in Note 7.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

4. BONDS ON DEPOSIT

Acquisitions in the fiscal year ended March 31, 2009 totalled \$188 000 (2008: \$587 265) and sales totalled \$495 932 (2008: \$461 000).

5. PARTICIPATION DEPOSITS IN A CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC SPECIAL FUND

Participation deposits in a Caisse de dépôt et placement du Québec special fund ("CDPQ") are composed of units that are refunded with prior notice in accordance with the Caisse's terms of payment at the market value of the fund's net equity at months' end.

	2009	2008
Number of units	640	806
Cost of units	\$625 734	\$786 536
Fair value of units	\$566 809	\$885 502
Fair value per unit	\$886	\$1 099

Third-party and bank-sponsored assets-backed commercial papers (ABCPs) (information produced using the financial statements of special fund 332 of the Caisse de dépôt et placement du Québec)

The CDPQ established the fair value of participation deposits as March 31, 2009, considering a decline in value on investments it holds on the Canadian market for asset-backed commercial papers (ABCP) that were restructured.

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

5. PARTICIPATION DEPOSITS IN A CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC SPECIAL FUND (cont'd)

Restructuring efforts (cont'd)

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on March 31, 2009, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at March 31, 2009. Based on the information available at March 31, 2009, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of the Caisse de dépôt et placement du Québec special fund

For the fiscal year ended March 31, 2009, the share in expenses attributed to the special fund is \$39 000 (2008: \$21 000) for an investment in ABCPs, via the CDP, of \$119 000 (2008: \$117 000). This share comprises:

- the share of the \$39 000 (\$17 000 in 2008) unrealized loss on these securities;
- the share in the interest income (charges) for third-party and bank-sponsored ABCPs minus reversal of interest paid to specialized portfolios of \$1 000 (\$3 000 in 2008);
- the share of the \$1 000 (\$1 000 in 2008) realized losses.

The estimated fair value of the CDP's ABCP investments at December 31, 2009 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the special fund.

In its financial statements, the CDP also points out the contingencies resulting from the guarantees it issued for the purposes of ABCP restructuring. The special fund's share in these guarantees is \$63 000 (2008: \$48 000).

Therefore, the share of unrealized losses on the ABCP attributed to the above-mentioned special fund includes \$6 000 relative for these ABCP-related guarantees (2008: \$4 000).

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

6. TRAVEL AGENTS' INDIVIDUAL SECURITIES

	<u>2009</u>	<u>2008</u>
Securities in force		
Opening balance	\$4 082 747	\$4 187 590
Securities deposited	<u>598 007</u>	<u>621 348</u>
	<u>4 680 754</u>	<u>4 808 938</u>
Claims and trust fees		(2 091)
Securities refunded	(641 878)	(513 100)
Bonds returned and replaced by individual guarantee policies	<u>(395 000)</u>	<u>(220 000)</u>
	<u>(1 036 878)</u>	<u>(735 191)</u>
Closing balance	3 643 876	4 073 747
Change in fair value of travel agents' individual securities	9 037	
Prepaid securities*		9 000
	<u>\$3 652 913</u>	<u>\$4 082 747</u>

* Prepaid securities include securities received for licences that were not valid at fiscal year-end.

The net change in securities for the fiscal year totalled \$438 871 (2008: \$104 843) and includes operations with no impact on cash flows concerning bonds received on deposit and whose net change represented \$307 932 at March 31, 2009 (2008: \$126 265).

Security provided by travel agents in the form of individual guarantee policies was estimated at \$35 093 000 at March 31, 2009 (March 31, 2008: \$38 920 500) with \$33 543 000 for holders of valid permits at March 31, 2009 (March 31, 2008: \$33 355 500). This estimate includes the performance bonds of agencies having ceased operating their business for at least two years and against whom claims can still be made.

7. FINANCIAL INSTRUMENTS

Fair value

Financial instruments classified as assets or liabilities held for transaction purposes are reported at their fair value the date of the balance sheet and any change in fair value is posted to net results for the period in which these changes occurred.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

7. FINANCIAL INSTRUMENTS (cont'd)

Fair value (cont'd)

Cash on hand, demand deposits in the Caisse de dépôt et placement du Québec's General Fund, investment income receivable, term deposits, accounts receivable, and management fees payable are reported at their fair value, which equals their book value, given that they mature in the near future.

The fair value of participation deposits in a Caisse de dépôt et placement du Québec (CDP) special fund is established by the CDP by means of evaluation methods used on capital markets, such as actualization at current cash flow interest rates, stock prices on the main stock exchanges and those supplied by recognized stock brokers. Further, the CDP performs certain evaluations using common evaluation methods. Consequently, changes in fair value are reported under "Change in the fair value of a special fund with the Caisse de dépôt et placement du Québec" in the statement of operations.

Bonds received as deposits

The fair value of bonds received as deposits according to their stock market value is \$884 788 (cost: \$875 751) at March 31, 2009 (March 31, 2008: \$1 141 653; cost: \$1 183 683). This value was determined by the Bureau des dépôts et consignations – Ministère des Finances using an active market for the security the date of closing.

Additional financial risk information

Credit risk

The exposure of travel agents' individual securities to credit risk corresponds to the book value of the financial asset items. The credit risk related to these assets is concentrated in very few files.

No account receivable was due at March 31, 2009.

Interest rate risk

The interest rate risk defines the possibility of a financial instrument's fair value or future cash flows fluctuating due to changes in market interest rates. No sensitivity analysis was performed since a 0.5% change in the interest rate would not significantly affect the fiscal year's results.

At March 31, 2009, the securities' exposure to interest rate risk can be summarized as follows:

Cash	interest-free
Demand deposits in the Caisse de dépôts et placement du Québec General Fund	variable interest
Investment income receivable	interest-free
Term deposits	interest varying from 0.25% to 4.00%
Bonds on deposit	interest-free
Participation deposits in a Caisse de dépôt et placement du Québec special fund	interest-free
Management fees payable	interest-free
Travel agents' individual security	interest-free

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

7. FINANCIAL INSTRUMENTS (cont'd)

Additional financial risk information (cont'd)*Liquidity risk*

The liquidity risk is the risk that it may not be possible to amass the funds needed to honour the entity's financial obligations when appropriate and under reasonable conditions.

To offset this risk, liquidity forecasts are performed daily, monthly and the necessary transfers made to the CDP or the financial institution in question. To ensure that its cash requirements are covered, the liquidities needed are kept to repay the travel agencies concerned.

Liabilities requiring disbursements in the short and long term can be honoured. Receivable are generally paid within 30 days.

Market risk

The market risk represents the risk of financial loss resulting from a fluctuation in the value of financial instruments due to changes in market parameters, notably interest rates, exchange rates, stock market prices and volatility.

To manage this risk, travel agents' individual securities have an agreement with the CDP and an investment policy stipulating the management framework for the amounts deposited. This policy defines the general standards for breaking down the asset, by defining the reference portfolio and translating the needs of travel agents' individual securities regarding expected yield and acceptable risk in the financial markets context. It also sets the limits for asset breakdown deviations the CPD can conduct in its active management as well as the travel agents' individual securities' expectations for added value in comparison to the reference portfolio selected.

The CDP discloses the following market risk management information in its audited financial statements for special fund 332.

"Market risk at the Caisse is measured using the method known as Value at Risk (VaR), which is based on the statistical measurement of the volatility of the market value of each position and its correlations. VaR is a statistical technique used to determine the worst loss expected during a given period based on a predetermined level of confidence. The Caisse uses a level of confidence of 84% in its calculations [...]"

The Caisse determines the VaR for each instrument included in all the specialized portfolios and aggregates the information for the overall portfolio. The Caisse uses the historical simulation approach to estimating the VaR. A horizon of 800 days of observation of risk factors such as variations in exchange rates, interest rates and financial asset prices, is used to evaluate the volatility of returns and the correlation between various asset returns. The historical simulation approach is based essentially on the assumption that the future will be similar to the past. This approach requires that the series of historical data on all the risk factors used to estimate the returns on the instruments be available. In the absence of historical data, alternative methods are used.

The Caisse calculates two types of risk, the absolute risk and the active risk. The absolute risk, or absolute VaR, of the Caisse benchmark portfolio (target portfolio of depositors as a whole), is the result of the risk (volatility) of the benchmark indexes of the asset classes in the portfolio. For example, should depositors as a whole elect to increase the weight of equities in their benchmark portfolios, such risk would increase automatically due to the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (comprised of the actual investments) equates the risk (volatility) of positions included in the overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated using the same method but they relate to different portfolios, the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

7. FINANCIAL INSTRUMENTS (cont'd)

Additional financial risk information (cont'd)

Market risk (cont'd)

The CDP discloses the following market risk management information in its audited financial statements for special fund 332.
(cont'd)

The active risk, or VaR related to active management, represents the possibility that the Caisse record a return different from that of its benchmark portfolio as a result of its active management of the overall portfolio. The higher the active risk, the more the expected return from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio, the absolute risk of the overall portfolio and the active risk are measured on a regular basis [...].

At March 31, 2009, the absolute risk and active risk for Fund 332 were 286 and 398 centesimal points respectively.

8. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the travel agents' individual securities is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to joint control or significant influence by it. The general secretary did not do business with these related parties other than during the normal course of its activities and under normal business conditions. Most of these operations are not shown separately in the financial statements.

CAUTIONNEMENTS INDIVIDUELS DES AGENTS DE VOYAGES**MANAGEMENT'S REPORT**

The financial statements of the travel agents' individual securities were prepared by management of the Office de la protection du consommateur ("OPC"), which is responsible for their preparation, presentation and the significant estimates and judgments included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information contained in the rest of the Office de la protection du consommateur's annual activity report concurs with the information disclosed in the financial statements.

To fulfil its mandate, Office de la protection du consommateur's general secretary maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial information.

The general secretary recognizes that it is responsible for conducting individual securities' business in accordance with the laws and regulations that govern it.

The Auditor General of Québec has audited the travel agents' individual securities' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the general secretary also the members of OPC to discuss any matter related to the audit.

André Derome
Coordinator, Licensing Department

Louis Borgeat
President, Office de la protection
du consommateur

Québec, June 12, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Cautionnements individuels des agents de voyages (travel agents' individual securities) as at March 31, 2009 and the statement of operations and cumulative surplus and cash flows for the year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by the Office de la protection du consommateur's general secretary, and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the travel agents' individual securities as at March 31, 2009, and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes to accounting policies for financial instruments disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 12, 2009

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC
(R.S.Q., c. C-8.1)

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
for the year ended March 31, 2009

	2009	2008
REVENUES		
Research and development		
Gouvernement du Québec contribution	\$10 250 000	\$9 250 000
Outside clients	4 109 858	5 429 277
	14 359 858	14 679 277
Services		
Gouvernement du Québec contract	8 000 000	2 000 000
Outside clients	8 860 122	7 695 116
	16 860 122	9 695 116
Other		
Gain on sale and amortization of gain reported on a building (Note 10)	271 200	3 517 367
Loss on sale of capital assets	(20 754)	(58 943)
Gain on sale of investment		206 795
Net reduction in fair value of investments held for transaction purposes	(16 672)	(35 403)
Miscellaneous revenue	218 517	290 074
	452 291	3 919 890
	31 672 271	28 294 283
EXPENSES		
Salaries and fringe benefits	19 611 902	19 041 922
Direct project costs	5 177 375	4 935 351
Building occupancy costs	2 895 151	2 574 278
Operating costs	2 352 402	2 414 773
Financial expenses on other financial liabilities	231 766	402 724
Cash income on assets held for transaction purposes	(97 920)	(352 166)
Government assistance – Gouvernement du Québec	(145 766)	(150 859)
Amortization		
Capital assets	1 490 814	1 397 744
Intangible assets	94 498	252 725
	31 610 222	30 516 492
NET PROFIT (NET LOSS) AND COMPREHENSIVE INCOME	\$62 049	\$(2 222 209)

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

CUMULATED DEFICIT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$(17 329 429)	\$(15 107 220)
Net income (net loss)	<u>62 049</u>	<u>(2 222 209)</u>
CLOSING BALANCE	<u><u>\$(17 267 380)</u></u>	<u><u>\$(17 329 429)</u></u>

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash in hand	\$711 006	\$2 197 469
Investments (Note 5)	6 500 000	7 000 000
Accounts receivable (Note 6)	2 969 939	2 333 855
Projects under way	1 103 422	1 601 914
Inventory (Note 7)	706 841	970 286
Prepaid expenses	316 614	173 398
	<u>12 307 822</u>	<u>14 276 922</u>
Long-term receivables (Notes 8 and 14)	785 321	923 699
Long-term investments (Note 9)	19 554	36 226
Capital assets and intangible assets (Notes 11 and 14)	<u>12 048 020</u>	<u>10 158 067</u>
	<u>12 852 895</u>	<u>11 117 992</u>
	<u><u>\$25 160 717</u></u>	<u><u>\$25 394 914</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals (Note 13)	\$6 403 878	\$6 275 862
Deferred revenue	1 030 724	1 152 425
Short-term portion of deferred gain (Note 10)	271 200	271 200
Instalments on long-term debt (Note 14)	<u>7 477 016</u>	<u>7 265 415</u>
	<u>15 182 818</u>	<u>14 964 902</u>
Long-term debt (Note 14)	456 458	582 036
Deferred credits	303 281	420 665
Deferred gain (Note 10)	<u>2 011 400</u>	<u>2 282 600</u>
	<u>2 771 139</u>	<u>3 285 301</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 15)	24 474 140	24 474 140
Cumulated deficit	<u>(17 267 380)</u>	<u>(17 329 429)</u>
	<u>7 206 760</u>	<u>7 144 711</u>
	<u><u>\$25 160 717</u></u>	<u><u>\$25 394 914</u></u>

COMMITMENTS (Note 21)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Georges Archambault
André Bazergui

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Net income (Net loss)	\$62 049	\$(2 222 209)
Adjustments for:		
Depreciation of capital assets	1 490 814	1 397 744
Amortization of intangible assets	94 498	252 725
Amortization of deferred credits	(117 384)	(117 384)
Amortization of deferred gain	(271 200)	(158 200)
Loss on sale of capital assets	20 754	58 943
Gain on sale of building destined for sale (Note 10)		(3 359 167)
Loss of value of intangible assets		206 271
Gain on sale of investment		(206 795)
Net reduction in fair value of investments held for transaction purposes	16 672	35 403
Interest capitalized on Ministère des Finances' advance	207 362	301 644
Change in non-cash items related to operations (Note 16)	(25 148)	(803 571)
Cash flows related to operating activities	1 478 417	(4 614 596)
INVESTMENT ACTIVITIES		
Revenue from sale of long-term investments		1 157 459
Acquisition of investments	(6 500 000)	(7 000 000)
Acquisition of long-term investments		(7 112)
Revenue from sale of investment	7 000 000	
Acquisition of capital assets	(3 345 157)	(1 450 511)
Revenue from sale of building		11 565 000
Revenue from sale of capital assets	1 616	1 800
Cash flows related to investment activities	(2 843 541)	4 266 636
FINANCING ACTIVITIES		
Repayment of long-term debt	(121 339)	(116 192)
Decrease in bank borrowing		(1 984 280)
Increase in bank borrowing		27 620
Cash flows related to financing activities	(121 339)	(2 072 852)
DECREASE IN CASH ON HAND	(1 486 463)	(2 420 812)
OPENING CASH ON HAND	2 197 469	4 618 281
CLOSING CASH ON HAND	\$711 006	\$2 197 469

The notes are an integral part of these financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Centre de recherche industrielle du Québec (Centre), a legal person established in the public interest under the *Act respecting the Centre de recherche industrielle du Québec* (R.S.Q., c. C-8.1), is mandated to design, develop and test industrial equipment, products and processes; operate, on its own or with partners, the equipment, products and processes it develops or for which it owns the rights; gather and disseminate technological and industrial data and information; and carry on any activity related to standardization and certification. The Centre's actions fall under Government operations and are attributed to the Minister of Finance.

Under federal and provincial income tax legislation, the Centre does not pay income tax.

2. NEW ACCOUNTING POLICIES

On April 1, 2008, the Centre adopted the following new accounting standards released by the Canadian Institute of Chartered Accountants (CICA):

Section 1535, "Capital Disclosures", seeks to give users information related to the objectives, policies and processes for managing capital.

Sections 3862 and 3863, "Financial Instruments – Disclosures" and "Financial Instruments – Presentation", seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and extent of the risks arising from financial instruments for the entity and how it manages these risks. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation".

Section 3031, "Inventories", states that inventories must be measured at cost or net realizable value, whichever is lower, and gives guidance on the determination of cost, allows use of the retail price, henceforth prohibits use of the last-in, first-out (LIFO) method and requires reversal of write-downs when there is an increase in the realizable value of inventories. More detailed information on inventories and the cost of merchandise sold is also provided.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets, evaluation of current projects and the provision for bad debts. Real results may differ from these estimates.

Rental income

The Centre records basic rent using the straight-line method over the duration of the rental contracts. The surplus of rent posted over amounts collected under rental contracts is disclosed under accounts receivable in the balance sheet.

Revenue reporting

Revenue and profits from contracts are recorded using the percentage-of-completion method, determined using the value of labour invoiced and purchases charged to contracts versus total estimated value. Events that are as yet unknown could arise and change these estimates.

Financial instruments

Le Centre has used the following classification system:

- Cash and shares in public corporations are classified under "Assets held for transaction purposes" and term deposits are irrevocably designated as such. They are assessed at their fair value and the gains and losses resulting from their re-evaluation at the end of each period are reported under net results, where applicable.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**3. ACCOUNTING POLICIES (cont'd)****Financial instruments (cont'd)**

- Accounts receivable and accrued interest are classified under “Loans and receivables” and initially measured at their fair value and then at cost after amortization using the effective interest rate method. For the Centre, this generally corresponds to cost.
- Bank borrowings, expenses payable and the long-term debt are classified under “Other financial liabilities”. They are initially measured at their fair value and then at cost after amortization using the effective interest rate method. For the Centre, this generally corresponds to cost. Transaction costs are deducted from financial liabilities and amortized using the effective interest rate method over the service life of the liabilities in question.

The derivatives incorporated into other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contract and reported as derivatives when the economic characteristics and risks they present are not closely linked to those presented by the host contract.

Current projects

Current projects represent surplus costs and profits recognized for contracts under way over amounts invoiced.

- Outside projects: when the total estimated cost is higher than the amount that can be recovered, the surplus is recorded as a fiscal-year loss.
- Research projects carried out in partnership: the costs of performing work in research projects carried out in partnership are recorded in the fiscal year in which they were incurred.

Inventories

Inventories are recorded at cost or net realization value, whichever is lower. Their cost is calculated using the FIFO method. Inventory costs comprise the cost of materials acquisition, direct labour and transportation.

Investments

Investments, i.e. term deposits and shares in public corporations, are recognized at fair value. Any change in fair value is posted to net results.

Capital assets

Capital assets are recorded at cost.

The building located on land belonging to the Ville de Québec is amortized using the straight-line method over the 38-year period the Centre has the right to use this land. Leasehold improvements are amortized using the straight-line method over 20 years. The Lac-Saint-Charles test bank is amortized using the straight-line method over an 8-year period. Other fixed assets are depreciated using the diminishing balance method at the following rates:

Buildings and land improvement	5% and 8%
Furniture and equipment	15%, 20% and 40%
Computer equipment	25%
Automotive equipment	30%

The Centre regularly examines its capital assets' book value, comparing it with the unrealized future cash flows these assets are expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Materials and equipment acquired directly for the Centre's R&D projects are not capitalized but charged to the cost of the project concerned and invoiced to clients.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**3. ACCOUNTING POLICIES (cont'd)****Intangible assets**

Intangible assets—software, patents and rights to use technologies and protocols—are recorded at cost and amortized using the methods and rates indicated below. They undergo a depreciation test when events or changes in the situation indicate that their book value cannot be recovered. Any surplus book value over fair value is posted to results for the period during which the depreciation was determined.

	Method	Rate
Patents and rights to use technologies and protocols	Straight-line	20% to 33 %
Software	Diminishing balance	30%

Deferred revenue

Deferred revenue represents the surplus of the amounts invoiced under current contracts over the costs and profits recognized. It also includes clients' deposits cashed in advance in keeping with contractual agreements.

Deferred credits

Deferred credits represent subsidies related to fixed assets, which are deferred and amortized at the same rate as the fixed assets they finance.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Currency conversion

Monetary assets and liabilities in foreign currency are converted at the exchange rate in effect the date of the balance sheet. All other assets and liabilities are converted at the historic rate. Revenues and expenses are converted at the exchange rate in effect the date of the transaction. Exchange gains or losses are included in the fiscal year's net results.

4. RECENTLY RELEASED ACCOUNTING POLICIES

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008. The Centre will apply this section to the fiscal year beginning on April 1, 2009.

The Centre is currently evaluating the impact on its financial statements of applying this standard.

5. INVESTMENTS**Investments held for transaction purposes**

	2009		2008	
	Cost	Fair value	Cost	Fair value
Term deposit 0.51%, maturing April 28, 2009	\$6 500 000	\$6 500 000		
Term deposit, 3.95%, maturing April 23, 2008			\$3 500 000	\$3 500 000
Term deposit, 3.80%, maturing July 15, 2008			3 500 000	3 500 000
	<u>\$6 500 000</u>	<u>\$6 500 000</u>	<u>\$7 000 000</u>	<u>\$7 000 000</u>

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. ACCOUNTS RECEIVABLE**

	2009	2008
Clients	\$2 184 579	\$2 003 780
Other accounts receivable	167 690	67 614
Gouvernement du Québec - contracts	500 000	150 000
Short-term portion of long-term receivables (Note 8)	117 670	112 461
	<u>\$2 969 939</u>	<u>\$2 333 855</u>

7. INVENTORY

	2009	2008
Parts and supplies	\$92 623	\$94 417
Products	614 218	875 869
	<u>\$706 841</u>	<u>\$970 286</u>

At March 31, 2009, the Centre posted a provision of \$188 214 (2008: \$12 524) to reduce the book value of certain inventories at cost or net realization value, whichever is lower. No reversal of this provision was recorded during the fiscal year.

The costs linked to inventories of products posted to the fiscal year's results are presented under "Direct project costs" and total \$486 532 (2008: \$385 078).

8. LONG-TERM RECEIVABLES

	2009	2008
Advance on wages to employees*	\$328 863	\$349 571
Subsidy receivable – Gouvernement du Québec**	574 128	686 589
	902 991	1 036 160
Short-term portion (Note 6)	<u>(117 670)</u>	<u>(112 461)</u>
	<u>\$785 321</u>	<u>\$923 699</u>

* An advance equal to two weeks' pay was granted all employees to enable the Centre to defer pay day by two weeks. This advance bears no interest and is repayable on each employee's departure.

** Contribution receivable at a fixed rate of 4.58% cashable in quarterly instalments of \$71 709 until April 1, 2013 (Note 14).

9. LONG-TERM INVESTMENTS

	2009		2008	
	Cost	Fair value	Cost	Fair value
Investments held for transaction purposes:				
Shares in a public corporation	<u>\$61 750</u>	<u>\$19 554</u>	<u>\$61 750</u>	<u>\$36 226</u>

* \$16 672 (2008: \$35 403) was posted to net results for the fiscal year ended March 31, 2009 as a net reduction in fair value.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. DEFERRED GAIN**

At August 30, 2007, the Centre sold one of its buildings. Following this transaction, a gain of \$6 071 167 was recognized, \$2 712 000 of which was deferred and amortized to net results over the duration of the lease based on the accounting standards applicable to leaseback operations.

	2009	2008
Deferred gain	\$2 712 000	\$2 712 000
Accumulated amortization	<u>(429 400)</u>	<u>(158 200)</u>
	2 282 600	2 553 800
Short-term portion of deferred gain	<u>(271 200)</u>	<u>(271 200)</u>
	<u>\$2 011 400</u>	<u>\$2 282 600</u>

An environmental study, conducted for the building's sale, revealed corrective measures to be made. Those made during the fiscal year ended March 31, 2009 totalled \$82 521 (2008: \$93 023). Given that all of the work is finished, the \$122 479 remaining in the provision was reversed to results for the present fiscal year under the item "Building occupancy costs".

11. CAPITAL ASSETS AND INTANGIBLE ASSETS

	2009			2008
	Cost	Accumulated amortization	Net value	Net value
Capital assets				
Land	\$249 650		\$249 650	\$249 650
Building and land development*	10 053 258	\$6 359 696	3 693 562	3 531 768
	10 302 908	6 359 696	3 943 212	3 781 418
Furniture and equipment	24 376 804	18 979 956	5 396 848	4 654 908
Leasehold improvements	1 531 809	58 366	1 473 443	528 085
Computer equipment	7 072 913	6 216 431	856 482	835 109
Rolling stock	374 602	241 514	133 088	60 360
	43 659 036	31 855 963	11 803 073	9 859 880
Intangible assets				
Patents and rights to use technologies and protocols	55 000	36 669	18 331	36 667
Software	3 747 410	3 520 794	226 616	261 520
	3 802 410	3 557 463	244 947	298 187
	\$47 461 446	\$35 413 426	\$12 048 020	\$10 158 067

* The Centre acquired the right to use land belonging to the Ville de Québec. A building, with a net book value of \$661 237 as at March 31, 2009 (2008: \$687 769), will be transferred to the latter at no cost on July 24, 2030.

At March 31, 2009, the net book value of the land and buildings was \$3 943 212 (2008: \$3 781 418), whereas municipal assessments total \$11 289 300 (2008: \$11 289 300).

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. BANK BORROWING**

At March 31, 2009, the Centre had an authorized credit line of \$4 000 000, renewable annually. This credit line bears interest at the corporate prime rate, which was 2.50% at March 31, 2009 (2008: 5.25%). At March 31, 2009 and 2008, the credit line was unused.

13. ACCOUNTS PAYABLE AND ACCRUALS

	2009	2008
Suppliers and other accrued liabilities	\$2 559 139	\$2 477 319
Salaries and fringe benefits	1 538 703	1 582 680
Provision for vacation time	2 306 036	2 215 863
	<u>\$6 403 878</u>	<u>\$6 275 862</u>

14. LONG-TERM DEBT

	2009	2008
Advance from the Ministère des Finances* bearing interest at the National Bank of Canada's prime rate of 2.50% at March 31, 2009 (5.25% in 2008), maturing on March 31, 2010. The interest is capitalized and payable no later than the date the advance expires.	\$7 351 439	\$7 144 077
Note payable to the Financing Fund, fixed rate of 4.58%, repayable in semi-annual instalments of \$71 709, maturing April 1, 2013. A chattel mortgage without dispossession for the Gouvernement du Québec contribution receivable is given as surety. (Note 8)	574 128	686 589
Borrowings at fixed rates of 1.90%, repayable in 10 monthly instalments of \$760 and 1 instalment of \$380, guaranteed, maturing at various dates until February 2010. Rolling stock is given as surety.	<u>7 907</u> 7 933 474	<u>16 785</u> 7 847 451
Portion maturing within one year	<u>(7 477 016)</u>	<u>(7 265 415)</u>
	<u>\$456 458</u>	<u>\$582 036</u>

Interest charges on the long-term debt for the fiscal year totalled \$239 969 (2008: \$375 755) and include \$207 362 (2008: \$301 644) in interest on the Ministère des Finances advance that was capitalized during the fiscal year.

The capital payments to be made on the long-term debt over the next five fiscal years are:

2010	\$7 477 016
2011	123 121
2012	128 825
2013	134 792
2014	69 720

* Jointly-controlled related parties

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**15. CAPITAL STOCK**

	<u>2009</u>	<u>2008</u>
Authorized 650 000 shares with a par value of \$100 each		
Issued and paid 244 741 shares	<u>\$24 474 140</u>	<u>\$24 474 140</u>

16. CASH FLOWS

Changes in the non-cash elements linked to operations are as follows:

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$(636 084)	\$394 608
Current projects	498 492	(682 067)
Inventory	263 445	(254 589)
Prepaid expenses	(143 216)	174 081
Long-term receivables	138 378	136 051
Accounts payable and accrued liabilities	(24 462)	(306 823)
Deferred revenue	<u>(121 701)</u>	<u>(264 832)</u>
	<u>\$(25 148)</u>	<u>\$(803 571)</u>

Interest paid during the fiscal year amounted to \$35 182 (2008: \$97 077).

As at March 31, 2009, "Accounts payable and accrued liabilities" includes an amount linked to capital asset acquisitions of \$474 536 (2008: \$322 058).

17. PENSION PLANS

Centre staff participates in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP), which are defined-benefit plans that include guaranteed payments on retirement and death.

At January 1, 2008, the Centre's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP from 7.78% to 10.54%. The contribution rate remained the same in 2009.

The agency's contributions charged to the fiscal year's net results totalled \$1 002 195 (2008: \$890 475). Its liability towards these Government plans is restricted to its employer contributions.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Centre is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Centre did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**19. INFORMATION ON CAPITAL**

The Centre defines its capital as the shareholders' equity, which breaks down as:

	2009	2008
Shareholders' equity		
Capital stock	\$24 474 140	\$24 474 140
Cumulated deficit	(17 267 380)	(17 329 429)
Capital	<u>\$7 206 760</u>	<u>\$7 144 711</u>

The Centre's shares belong to the public domain and are attributed to the Minister of Finance.

The Centre manages its capital by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the intentions specified in its incorporating act.

20. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term financial instruments equals their book value given that they mature in the near future. The fair value of the long-term investments quoted corresponds to their stock market value, i.e. bid price. The following table shows the book value and fair value of the Centre's long-term financial instruments:

	2009		2008	
	Book value	Fair Value	Book value	Fair Value
Financial assets:				
Long-term accounts receivable:				
Salary advance to employees	\$328 863	¹	\$349 571	¹
Contribution receivable – Gouvernement du Québec	574 128	\$599 523	686 589	\$699 811
Financial liabilities:				
Ministère des Finances advance	7 351 439	7 351 439	7 144 077	7 144 077
Note payable to the Financing Fund	574 128	578 382	686 589	663 495
Fixed-rate borrowings	7 907	7 907	16 785	16 785

1 The fair value cannot be determined, given the uncertainty as to the date of repayment.

Interest rates used to determine fair value

The interest rates used to actualize future cash flows are based on the risk-free interest rate on the date of the balance sheet, adjusted by a credit premium. The rates used for accounts receivable and financial liabilities are 3.00% and 4.50% respectively (2008: 4.10% and 6.00%).

Market risk

The market risk correspond to the financial losses the Centre can sustain, given the disadvantageous fluctuations in the value of financial instruments due to changes in the parameters underlying their evaluation, notably interest rates, exchange rates and stock market prices. Interest rate and exchange rate risks are shown below and management deems that the Centre is not significantly exposed to stock market price risks.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**20. FINANCIAL INSTRUMENTS (cont'd)****Interest rate risks**

Interest rate volatility affects the fair value of the Centre's financial assets and liabilities (market risks linked to fixed interest rates), cash and cash equivalents (cash flow risks linked to variable interest rates).

The Ministère des Finances advance bears interest at a variable rate, resulting in a cash flow risk with respect to the interest paid on this debt.

The effect of an immediate, sustained 1% interest rate increase at March 31, 2009 would increase interest charges by \$50 000 (2008: \$50 000) whereas a 1% interest rate decrease would decrease interest charges by the same amount.

The other long-term debts bear interest at fixed rates. Consequently, the Centre's risk exposure in their regard is minimal, given that it plans to keep them until they mature.

Credit risk

The Centre's credit risk exposure corresponds to the accounting value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The Centre assesses these assets on an ongoing basis and posts a provision for losses when accounts are deemed uncollectible.

Analysis of the age of financial assets breaks down as:

	2009			2008		
	Gross value	Decline in value	Net value	Gross value	Decline in value	Net value
Overdue for 0 to 30 days	\$1 456 730	\$67 300	\$1 389 430	\$1 470 245		\$1 470 245
Overdue for 31 to 60 days	586 352		586 352	248 772		248 772
Overdue for 61 to 90 days	134 179	2 310	131 869	82 017		82 017
Overdue for more than 90 days	147 885	70 957	76 928	308 828	\$106 082	202 746
	<u>\$2 325 146</u>	<u>\$140 567</u>	<u>\$2 184 579</u>	<u>\$2 109 862</u>	<u>\$106 082</u>	<u>\$2 003 780</u>

The change in the provision for losses on accounts receivable breaks down as:

	2009	2008
Opening balance	\$106 082	\$42 509
Decline in value booked	108 440	77 934
Recovery of provision	<u>(73 955)</u>	<u>(14 361)</u>
Closing balance	<u>\$140 567</u>	<u>\$106 082</u>

Based on the historical rates of customer account default, the Centre deems that it is not necessary to book a decline in value in customer accounts that are not overdue or those that are up to 60 days overdue. As an exception, at March 31, 2009, a provision for losses of 50% of its value was taken on a customer account that was more than 30 days overdue, given that this customer had put itself under the protection of the *Companies Creditors Arrangements Act*. The Centre's activities are diversified and the same is true for its clientele.

At March 31, 2009, one customer's balance receivable represented 13% of the accounts receivable (1 client for 15% in 2008).

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**20. FINANCIAL INSTRUMENTS (cont'd)****Market liquidity risk**

Contractual cash flows related to the entity's financial liabilities break down as:

	Book value	Total contractual cash flows	Less than 6 months	Term 6 to 12 months	1 to 4 years
Financial liabilities					
Accounts receivable and other accrued liabilities	\$2 559 139	\$2 559 139	\$2 559 139		
Salaries and fringe benefits	1 538 703	1 538 703	1 538 703		
Provision for vacation time	2 306 036 ¹	2 306 036	1 153 018	\$1 153 018	
Ministère des Finances advance	7 351 439 ²	7 476 439		7 476 439	
Note payable to Financing Fund	574 128	645 380	71 709	71 709	\$501 962
Fixed-rate borrowings	7 907	7 600	4 560	3 040	
	<u>\$14 337 352</u>	<u>\$14 533 297</u>	<u>\$5 327 129</u>	<u>\$8 704 206</u>	<u>\$501 962</u>

1 Breakdown of terms estimated by management.

2 Although this debt is due on March 31, 2010, the annual orders-in-council issued by the Gouvernement du Québec have allowed the Ministère des Finances to renew this advance year after year since the fiscal year ended March 31, 2000.

The entity considers that it holds enough investments that are easily convertible into cash and credit facilities to ensure that it has the funds needed to meet its current and long-term financial requirements at a reasonable rate, if applicable.

Exchange risk

The Centre carried out some of its transactions in foreign currency. It neither holds nor issues financial instruments to manage the risk to which it is exposed. However, these risks have no significant impact on its results and financial position.

21. COMMITMENTS

At March 31, 2009, the Centre had obligations under a lease terminating in 2017 and under various contracts. The balance of these commitment is \$6 939 278 for the next five fiscal years. The minimum annual commitments payable under this lease and these contracts for the next five fiscal years are:

2010	\$1 696 326
2011	1 315 278
2012	1 288 765
2013	1 349 299
2014	1 289 610

22. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Centre de recherche industrielle du Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Centre recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Centre's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Georges Archambault
President and Chief Executive Officer

Lionel Vézina, CA
Vice-President, Finance and Administration

Québec, May 4, 2009

CENTRE DE RECHERCHE INDUSTRIELLE DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Centre de recherche industrielle du Québec as at March 31, 2009 and the statements of operations and comprehensive income, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 4, 2009

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC
(R.S.Q., c. C-8.1.1)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2009

	2009	2008
REVENUES (Note 24)		
Goods	\$13 131 255	\$12 802 789
Services	467 071 908	330 650 142
Sales discounts and rebates	(9 289 126)	(8 122 657)
	<u>470 914 037</u>	<u>335 330 274</u>
SALES COSTS (Note 4)	<u>437 720 708</u>	<u>308 128 694</u>
GROSS PROFIT	33 193 329	27 201 580
Gouvernement du Québec contributions	8 171 268	
Other revenues	267 109	106 410
	<u>41 631 706</u>	<u>27 307 990</u>
OPERATING EXPENSES (Note 5)	35 463 371	31 975 631
FINANCE CHARGES	<u>6 433 679</u>	<u>9 819 113</u>
	(265 344)	(14 486 754)
Gain on sale of capital assets	28 976	39 925
Loss on sale of capital assets	(2 974)	(426 633)
Loss on sale of intangible assets	<u>(220 370)</u>	<u>(455 776)</u>
NET LOSS BEFORE DISCONTINUED OPERATIONS	(459 712)	(15 329 238)
DISCONTINUED OPERATIONS (Note 27)	<u>911 818</u>	<u>2 649 747</u>
SURPLUS (NET LOSS) FOR THE FISCAL YEAR	452 106	(12 679 491)
OPENING CUMULATED DEFICIT	<u>(2 679 491)</u>	<u> </u>
CUMULATED DEFICIT BEFORE TRANSFER	(2 227 385)	(12 679 491)
Transfer of a portion of the Gouvernement du Québec contribution to eliminate the cumulated deficit (Note 19)	<u> </u>	<u>10 000 000</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(2 227 385)</u></u>	<u><u>\$(2 679 491)</u></u>
RESULTS BY ACTIVITY SECTOR (Note 30)		

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$12 319 923	\$33 172 232
Accounts payable (Note 6)	202 287 725	153 654 498
Inventories (Note 7)	7 394 397	7 520 402
Prepaid expenses	14 226 619	9 932 111
	<u>236 228 664</u>	<u>204 279 243</u>
Long-term accounts payable (Note 8)	1 200 792	2 401 584
Instrument receivable from the Gouvernement du Québec (Note 9)	6 745 642	9 458 151
Capital assets (Note 10)	161 127 734	123 325 123
Intangible assets (Note 11)	168 595 224	164 707 239
Deferred expenses	<u>3 899 303</u>	<u>5 913 264</u>
	<u><u>\$577 797 359</u></u>	<u><u>\$510 084 604</u></u>
LIABILITIES		
Current liabilities		
Amount owing to the Consolidated Revenue Fund (Note 12)	\$33 445 156	
Short-term borrowings (Note 13)	342 763 730	\$336 264 997
Accounts payable and accrued liabilities (Note 14)	98 166 210	85 611 893
Instalments on the long-term debt (Note 15)	985 841	837 396
Prepaid proceeds	6 824 996	4 159 928
	<u>482 185 933</u>	<u>426 874 214</u>
Long-term accounts payable (Note 16)	3 500 792	6 601 584
Long-term debt (Note 15)	28 138 704	25 523 339
Deferred Gouvernement du Québec contribution (Note 17)	1 787 502	
Provision for sick leave (Note 18)	<u>31 060 634</u>	<u>20 413 779</u>
	<u>546 673 565</u>	<u>479 412 916</u>
EQUITY		
Gouvernement du Québec contribution (Note 19)	33 351 179	33 351 179
Cumulated deficit	<u>(2 227 385)</u>	<u>(2 679 491)</u>
	<u>31 123 794</u>	<u>30 671 688</u>
	<u><u>\$577 797 359</u></u>	<u><u>\$510 084 604</u></u>
COMMITMENTS (Note 21)		
CONTINGENCIES (Note 28)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Robert Marcotte, Chairman of the Board of Directors
Diane Jean, President-CEO

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Net loss before discontinued operations	\$(459 712)	\$(15 329 238)
Items not affecting cash flows		
Amortization of capital assets	14 922 960	11 433 199
Amortization of intangible assets	20 975 128	9 650 356
Finance charges capitalized for short-term borrowings	5 943 942	9 480 898
Gain on sale of capital assets	(28 976)	(39 925)
Loss on sale of capital assets	2 974	426 633
Loss on sale of intangible assets	220 370	455 776
	<u>41 576 686</u>	<u>16 077 699</u>
Change in non-cash items related to operations (Note 22)	<u>(24 571 786)</u>	<u>(6 501 669)</u>
Cash flows from operating activities maintained	<u>17 004 900</u>	<u>9 576 030</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(45 605 895)	(13 542 473)
Acquisition of intangible assets	(22 254 516)	(14 112 189)
Proceeds from sale of capital assets	<u>40 375</u>	<u>6 707 674</u>
Cash flows for investment activities	<u>(67 820 036)</u>	<u>(20 946 988)</u>
FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings excluding financial costs capitalized	(3 081 964)	33 000 000
Long-term debt repayment	<u>(1 320 939)</u>	<u>(3 709 174)</u>
Cash flows (for) from financing activities	<u>(4 402 903)</u>	<u>29 290 826</u>
CASH FLOWS RESULTING FROM DISCONTINUED OPERATIONS		
Profit resulting from discontinued operations	911 818	2 649 747
Amortization of capital assets	8 756	70 989
Gain on sale of capital assets	(16 100)	
Loss on sale of capital assets	<u>16 100</u>	<u></u>
Cash flows (for) from discontinued operations	<u>920 574</u>	<u>2 720 736</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(54 297 465)</u>	<u>20 640 604</u>
OPENING CASH AND CASH EQUIVALENTS	<u>33 172 232</u>	<u>12 531 628</u>
CLOSING (DEFICIENCY OF) CASH AND CASH EQUIVALENTS (Note 22)	<u><u>\$(21 125 233)</u></u>	<u><u>\$33 172 232</u></u>

The notes are an integral part of these financial statements.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Centre de services partagés du Québec (Centre) is a legal person, created under the *Act respecting the Centre de services partagés du Québec* (R.S.Q., c. C-8.1.1), which came into effect on December 6, 2005, and mandated by the State to provide or make available to public bodies the property and administrative services they require to exercise their duties, especially human, financial, physical and informational resources.

In pursuing its mission, the Centre may exercise duties and render services that include:

- 1) purchasing and leasing movable property for public bodies;
- 2) promoting reuse within public bodies, and disposing of property when it is no longer needed;
- 3) developing, supplying, managing and maintaining products and services related to information technology and telecommunications;
- 4) developing and providing resource management business solutions;
- 5) providing any other service, professional or otherwise, which public bodies may require, such as printing, publishing, marketing, media booking, audiovisual services, exhibitions, reprography, mail and equipment maintenance;
- 6) amalgamating services and managing them; and
- 7) managing copyrights on the documents held by public bodies, in accordance with the standards established jointly by the Minister of Culture and Communications and the Status of Women and the Minister of Government Services, and seeing that they are complied with.

The incorporating legislation states that sums received by the Centre must be used to pay its obligations. Any surplus is kept by the Centre unless the Government decides otherwise.

Under Section 2 of its incorporating legislation, the Centre is a mandatary of the State as, as such, does not pay Québec or Canadian income taxes.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the provision for sick leave. Real results may differ from these estimates.

Financial instruments*Initial measurement*

Financial instruments are reported at their fair value the date of the transaction. Transaction costs are recognized under net results.

Financial instrument category and subsequent measurementAssets and liabilities held for transaction purposes

Assets and liabilities held for transaction purposes are assets and liabilities that the Centre acquired mainly for resale or buyback in the short term, or that were designated as such when initially measured.

Assets and liabilities held for transaction purposes were measured at their fair value and the gains and losses resulting from the remeasurement are recognized under net results, where applicable.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Financial instrument category and subsequent measurement (cont'd)

Assets and liabilities held for transaction purposes (cont'd)

The Centre classified cash on hand and irrevocably designated short-term assets and liabilities as assets and liabilities held for transaction purposes.

Loans and accounts receivable

Loans and accounts receivable do not include debt security. Subsequent measurement of loans and accounts receivable is at amortized cost using the effective interest rate method. Interest income, where applicable, is included under interest on loans.

The Centre classified long-term receivables and the note receivable from the Gouvernement du Québec in this category.

Other financial liabilities

Other financial liabilities include all non-derivative financial liabilities not classified in the category "Liabilities held for transaction purposes". These liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest charges, where applicable, are included under financial expenses.

The Centre classified long-term accounts payable and long-term debts in this category.

Fair value

Fair value is the amount of the consideration parties having jurisdiction agree on acting freely under fully competitive conditions. These values are determined using measurement methods such as the actualization of the current interest rates of future cash flows.

Comprehensive income

During the fiscal year ended March 31, 2009, the Centre did not carry out transactions affecting comprehensive income and no opening or closing balance for cumulated comprehensive income has been presented.

Inventories

Inventories are recorded at cost or net realization value, whichever is lower. Their cost is calculated using the FIFO method. Finished product costs comprise acquisition and transportation costs. Current product costs include raw materials, labour and overall manufacturing costs.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method over the following periods:

Specialized equipment	3 to 10 years
Radio communications infrastructure	5 to 20 years
Data processing equipment	3 to 10 years
Office furniture and equipment	3 years
Rolling stock	5 years
Leasehold improvements, held under capital lease contracts	3 to 15 years

The Centre regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. If the book value exceeds the estimated recoverable amount, depreciation corresponding to the surplus book value over fair value is posted to results. Estimating future cash flows and determining fair value requires exercising professional judgement and may vary over time.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Intangible assets**

Intangible assets, comprising computer systems, software and computer system developments, are recorded at cost, including direct labour, interest and other costs directly related to system development. They are amortized over their expected service life in accordance with the straight-line method as indicated below. They undergo a depreciation test when changes in the situation show that their book value cannot be covered. Any surplus book value over fair value is posted to results for the period for which the depreciation was determined.

Computer systems and software	2 to 5 years
Integrated resource management business strategy - Phase 1 (SAGIR-SGR1)	10 to 12 years

Computer systems development costs are amortized when they become operational.

Interest on debts linked to computer system developments is capitalized in the development period.

Lease agreements

Lease agreements under which the entity is a lessee to whom almost all property-related advantages and are transferred are reported as capital lease contracts and included under "Capital assets" and "Long-term debt". The cost recognized as capital lease contracts represents the actualized value of minimum instalments payable under the lease.

All other lease agreements are reported as operating leases and the resulting leasing costs are posted to current expenses in the fiscal year in which they arise.

Deferred expenses

Deferred expenses comprise primarily royalties from permit sales amortized in keeping with estimated future revenues and an additional amortization to bring gross profits to zero and with advance payments on maintenance contracts amortized on a straight-line basis over the contracts' duration.

Sick leave and vacation time

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

The obligations arising from vacation time owed to the Centre's employees are posted to liabilities. The annual expense is posted according to the benefits earned by employees during the fiscal year.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Centre lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Revenue reporting

Revenue resulting from the delivery of services and sale of goods is recorded once the following conditions have been met:

- There is convincing evidence that an agreement exists;
- Delivery has occurred or the services have been rendered;
- The selling price has been, or can be, determined;
- Recovery is reasonably certain.

Prepaid revenue is transferred to results as services are rendered.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Gouvernement du Québec contribution reporting

Gouvernement du Québec contributions affected are deferred and reported as revenues for the fiscal year in which the related expenses were incurred. Capital and intangible asset acquisition costs are posted as deferred Gouvernement du Québec contributions and transferred to results using the same methods and amortization rates as the capital and intangible assets acquired.

Cash and cash equivalents

It is the Centre's policy to present bank balances, the amount owing to the Consolidated Revenue Fund and investments that are easy to convert in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. ACCOUNTING POLICIES

Change in accounting policies

On April 1, 2008, the Centre applied the Canadian Institute of Chartered Accountants' (CICA) new recommendations for the accounting treatment of inventories, notably cost determination and its later reporting as expenses, including depreciation up to net realization value following the release of Section 3031, "Inventories". The Centre's application of this section had no impact on measurement.

Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements. Sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. For the Centre, the impact of these new accounting policies is limited solely to the disclosure of additional information.

On April 1, 2008, the Centre applied the new recommendations of section 1535 of the CICA Handbook, "Capital disclosures". This section, which applies to fiscal years beginning on or after October 1, 2007, defines the standards governing presentation of a corporation's disclosures and standards governing how disclosures are managed. This information is disclosed in Note 20 – Capital management. The application of this new accounting standard did not affect the Centre's financial performance.

Future changes in accounting policies

In the coming fiscal year, the Centre will apply CICA's new recommendations for a new section, Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. Management deems that application of these new standards will not significantly affect its financial statements

Change in accounting estimate

Obligations related to sick leave

During the fiscal year, the Centre changed the method used to measure its obligations related to accumulated sick leave. Henceforth, these obligations will be measured using an actuarial method based on defined benefit breakdown. This change in accounting estimate increased the value of the obligation by \$1 114 216 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. SALES COST

	2009	2008
Cost of goods and services sold		
Opening inventories (Note 7)	\$6 079 049	\$6 338 268
Salaries and fringe benefits	102 665 072	56 027 544
Professional and ancillary services	90 724 297	46 838 558
Transport and communications	82 831 893	78 277 091
Media ads	46 202 850	36 910 012
Mail and messenger services	10 334 615	10 657 835
Maintenance and repairs	31 239 140	25 381 065
Furnishings and supplies	17 735 958	14 827 027
Rent	22 785 989	19 243 483
Discounts and rebates on sales	(699 208)	(584 989)
Amortization of capital assets	13 914 862	10 525 643
Amortization of intangible assets	20 806 980	9 447 342
Amortization of deferred expenses	212 947	106 474
Other	159 115	212 390
	<u>444 993 559</u>	<u>314 207 743</u>
Closing inventories (Note 7)	<u>(7 272 851)</u>	<u>(6 079 049)</u>
	<u><u>\$437 720 708</u></u>	<u><u>\$308 128 694</u></u>

5. ACCOUNTS RECEIVABLE

	2009	2008
Sales costs		
Salaries and fringe benefits	\$7 124 550	\$6 797 486
Professional and ancillary services	2 733 683	1 387 340
Transportation and communications	99 204	232 540
Media ads	46 799	118 011
Mail and messenger services	331 767	441 666
Maintenance and repairs	6 082	6 868
Furnishings and supplies	25 314	70 732
Rent	430 656	212 835
Amortization of capital assets	29 593	37 480
Amortization of intangible assets	65 151	79 887
	<u>65 151</u>	<u>79 887</u>
Amounts brought forward	<u><u>\$10 892 799</u></u>	<u><u>\$9 384 845</u></u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. ACCOUNTS RECEIVABLE (cont'd)**

	2009	2008
Amounts carried forward	<u>\$10 892 799</u>	<u>\$9 384 845</u>
Administrative expenses		
Salaries and fringe benefits	16 932 019	13 652 073
Professional and ancillary services	3 034 421	3 263 558
Administrative expenses invoiced by the Gouvernement du Québec	353 263	825 409
Transport and communications	425 783	709 793
Media ads	26 395	11 363
Mail and messenger services	46 849	294 200
Maintenance and repairs	401 463	530 190
Furnishings and supplies	368 713	280 165
Rent	1 036 407	980 567
Amortization of capital assets	978 505	870 076
Amortization of intangible assets	102 997	123 127
Other	<u>863 757</u>	<u>1 050 265</u>
	<u>24 570 572</u>	<u>22 590 786</u>
	<u>\$35 463 371</u>	<u>\$31 975 631</u>

6. ACCOUNTS RECEIVABLE

	2009	2008
Customer accounts ¹ (Note 24)	\$172 827 002	\$146 069 795
Gouvernement du Québec	11 244 317	259 649
Short-term portion of long-term accounts receivable (Note 8)	1 200 792	2 401 584
Short-term portion of Gouvernement du Québec note receivable (Note 9)	16 730 327	4 614 225
Other	<u>285 287</u>	<u>309 245</u>
	<u>\$202 287 725</u>	<u>\$153 654 498</u>

1 Breakdown of client accounts

	2009	2008
Not outstanding	\$159 565 234	\$128 316 443
Outstanding for 31 to 60 days	5 479 919	9 911 489
Outstanding for 61 to 90 days	1 299 317	1 959 434
Outstanding for more than 90 days	<u>6 482 532</u>	<u>5 882 429</u>
	<u>\$172 827 002</u>	<u>\$146 069 795</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**7. INVENTORIES**

	2009	2008
Publications	\$2 124 814	\$2 364 728
Publication products under way	480 624	477 133
Photocopying raw materials	54 939	122 425
Postal values	3 424 173	2 411 466
Telephony	599 356	480 273
Computer inventory	588 945	223 024
	<u>7 272 851</u>	<u>6 079 049</u>
 Furnishings and furniture ¹	 <u>121 546</u>	 <u>1 441 353</u>
	<u>\$7 394 397</u>	<u>\$7 520 402</u>

1 Furnishing and furniture inventories are included in the calculation of the cost of goods sold for discontinued activities.

8. LONG-TERM ACCOUNTS RECEIVABLE

Long-term accounts receivable involve the distribution of Oracle software, cashable in annual payments of \$1 200 792, interest-free, maturing May 1, 2010.

	2009	2008
Accounts receivable	\$2 401 584	\$4 803 168
Short-term portion included under "Accounts receivable" (Note 6)	<u>1 200 792</u>	<u>2 401 584</u>
	<u>\$1 200 792</u>	<u>\$2 401 584</u>

9. GOUVERNEMENT DU QUÉBEC NOTE RECEIVABLE

The Gouvernement du Québec note receivable is interest-free and matures in March 2014. It represents amounts to be transferred to the Centre for banks of sick leave and vacation time earned by employees before they were transferred. The note receivable at March 31, 2009 includes \$13 350 649 in transfers for the fiscal year calculated by the Gouvernement du Québec.

	2009	2008
Note receivable	\$23 475 959	\$14 072 376
Note receivable in the short term included under "Accounts receivable" (Note 6)	<u>16 730 327</u>	<u>4 614 225</u>
Note receivable in the long term	<u>\$6 745 632</u>	<u>\$9 458 151</u>

The Gouvernement du Québec note receivable is encashable as follows:

2010	\$16 730 327
2011	3 169 782
2012	2 226 022
2013	1 097 408
2014	<u>252 430</u>
	<u>\$23 475 969</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. CAPITAL ASSETS**

	2009			2008
	Cost	Accumulated depreciation	Net value	Net value
Specialized equipment	\$8 233 790	\$4 846 062	\$3 387 728	\$3 881 915
Radio communications infrastructure	3 888 105	1 331 048	2 557 057	2 657 120
Data processing equipment ¹	68 376 873	53 166 323	15 210 550	10 706 104
Office furniture and equipment	3 348 787	2 270 701	1 078 086	1 173 120
Automotive equipment	1 184 613	811 434	373 179	240 729
RENIR project under way ²	128 665 969		128 665 969	97 983 493
	<u>213 698 137</u>	<u>62 425 568</u>	<u>151 272 569</u>	<u>116 642 481</u>
Leased under capital-lease contracts				
Leasehold improvements	16 234 923	6 379 758	9 855 165	6 682 642
	<u>\$229 933 060</u>	<u>\$68 805 326</u>	<u>\$161 127 734</u>	<u>\$123 325 123</u>

The capitalized financial costs for capital assets for the fiscal year totalled \$2 820 755 (2008: \$4 009 875).

- 1 The Centre co-owns computer hardware totalling \$5 468 745 with the Agence de la santé et des services sociaux de la Capitale-Nationale. The Centre's share represents 40% and that of the Agence 60%. The operating costs related to these capital assets are currently paid in full by the Ministère de la Santé et des Services sociaux but will be shared according to the respective shares once the Centre's portion is operational.
- 2 Investments are composed primarily of terminal and radio communications network infrastructures related to the RENIR project (Réseau national intégré de radiocommunication), which will be amortized when the project is almost completed.

11. INTANGIBLE ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net value	Net value
Computer systems and software	\$43 882 302	\$35 477 388	\$8 404 914	\$4 331 099
SAGIR-SGR1	144 910 849	21 670 822	123 240 027	133 939 524
Computer systems development: ¹				
SAGIR project	31 350 209		31 350 209	24 555 628
Other computer systems	5 600 074		5 600 074	1 880 988
	<u>\$225 743 434</u>	<u>\$57 148 210</u>	<u>\$168 595 224</u>	<u>\$164 707 239</u>

The capitalized financial costs for intangible assets for the fiscal year totalled \$816 000 (2008: \$1 430 000).

- 1 Investment for the SAGIR (integrated resource management business strategy) project and other computer systems are amortized when the projects are almost completed.

CENTRE DE SERVICES PARTAGÉS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. AMOUNT OWING TO THE CONSOLIDATED REVENUE FUND**

Under Section 45 of the *Act respecting the Centre de services partagés du Québec* (R.S.Q., c. C-8.1.1), the Government may, subject to the conditions it determines, authorize the Minister of Finance to advance to the Centre any amount considered necessary to meet its obligations or pursue its mission.

The service agreement governing management of cash on hand is renewable annually as of April 1, 2009 and the interest rate at March 31, 2009 was 2.5%.

13. SHORT-TERM BORROWINGS

The Gouvernement du Québec authorized the Centre by Order-in-Council to borrow up to \$450 million from the Financing Fund or a financial institution until October 31, 2009.

On the date of the balance sheet, the Centre had credit facilities with the Financing Fund up to a maximum of \$430 million bearing interest at the average 30-day banker's acceptance rate plus 0.3%. The rate at March 31, 2009 was 0.82% (2008: 3.91%). The Centre also has a bank credit line of \$20 million, which was unused at March 31, 2009 with a financial institution bearing interest at the prime rate. These borrowings are guaranteed by the Gouvernement du Québec.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	\$72 615 635	\$68 727 142
Salaries and fringe benefits payable	4 446 252	2 560 904
Vacation time payable (Note 18)	15 332 056	9 186 726
Short-term portion of long-term accounts payable (Note 16)	3 100 792	3 600 792
Other	2 671 475	1 536 329
	<u>\$98 166 210</u>	<u>\$85 611 893</u>

15. LONG-TERM DEBT

	2009	2008
Amount owed to the Gouvernement du Québec		
Interest-free, no terms of repayment	\$20 229 859	\$20 229 859
Interest-free, repayable with the annual amortization charge on assets transferred	611 595	792 298
Amount owed to the Société immobilière du Québec, bearing interest at rates varying from 4.28% to 4.70%, repayable in monthly instalments of \$499 to \$27 740 and maturing between August 31, 2009 and October 31, 2023.	8 283 091	5 338 578
	<u>29 124 545</u>	<u>26 360 735</u>
Instalments payable in the short term	985 841	837 396
	<u>\$28 138 704</u>	<u>\$25 523 339</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**15. LONG-TERM DEBT (cont'd)**

Payments of principal over the next 5 fiscal years and subsequent fiscal years on the \$611 595 owing to the Gouvernement du Québec and on the \$8 283 091 owing to the Société immobilière du Québec are:

	Principal	Interest	Total
2010	\$985 841	\$346 128	\$1 331 969
2011	1 017 387	312 159	1 329 546
2012	1 011 423	274 823	1 286 246
2013	906 079	238 339	1 144 418
2014	578 208	206 831	785 039
2015 and thereafter	4 395 748	996 869	5 392 617
	<u>\$8 894 686</u>	<u>\$2 375 149</u>	<u>\$11 269 835</u>

16. LONG-TERM ACCOUNTS PAYABLE

	2009	2008
Accounts payable for the distribution of Oracle software Equal annual instalments of \$1 200 792, interest-free, ending on May 1, 2010	\$2 401 584	\$3 602 376
Annual instalments varying from \$1 900 000 to \$2 300 000, interest-free, ending on June 1, 2010	<u>4 200 000</u>	<u>6 600 000</u>
	6 601 584	10 202 376
Instalments payable in the short term (Note 14)	<u>3 100 792</u>	<u>3 600 792</u>
	<u>\$3 500 792</u>	<u>\$6 601 584</u>

17. DEFERRED GOUVERNEMENT DU QUÉBEC CONTRIBUTIONS

Two contributions from the Ministère des Services gouvernementaux (MSG) were awarded during the fiscal year: \$9 958 770 (\$7 010 750 for the development of online government and \$2 948 020 for the RENIR (Réseau national intégré de radiocommunication) project). Of this amount, \$1 787 502 (\$1 007 157 for RENIR and \$780 345 for online government development) was posted to "Deferred Gouvernement du Québec contributions". These deferred Government contributions have been amortized at the same rate as the related capital and intangible assets. No amortization was reported for this fiscal year.

18. PROVISION FOR SICK LEAVE AND VACATION TIME

	2009		2008	
	Sick leave	Vacation time	Sick leave	Vacation time
Opening balance	\$20 413 779	\$9 186 726	\$19 003 332	\$8 293 472
Expense for the year	8 099 696	11 175 695	2 541 185	6 083 770
Benefits paid during the year	(5 814 959)	(10 018 896)	(2 929 246)	(5 999 871)
Transfers ¹	<u>8 362 118</u>	<u>4 988 531</u>	<u>1 798 508</u>	<u>809 355</u>
Closing balance	<u>\$31 060 634</u>	<u>\$15 332 056</u>	<u>\$20 413 779</u>	<u>\$9 186 726</u>

- 1 Transfers for provisions for sick leave and vacation time come from the Secrétariat du Conseil du trésor (SCT). This transaction is justified by the massive transfer of employees from different government department and agencies to the Centre for whom provisions has been recognized at the SCT. An account receivable equal to the latter was recognized and is encashable over the coming five fiscal years.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

18. PROVISION FOR SICK LEAVE AND VACATION TIME (cont'd)**Provision for sick leave**Description

The Centre has a sick leave accumulation program, which results in long-term obligations whose cost it bears in their entirety.

Currently, this program is not capitalized to ensure payment.

Sick leave accumulation program obligations increase as employees render services to the Centre. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

Accumulation of sick days

Sick days are generally allocated at a rate of 1 day/month for regular employees (12 days/year). For part-time employees, employees working short time or employees with flexible working arrangements, the sick leave credited each month may be a day or a fraction thereof.

Each unused sick day may be transferred and accumulated, should a specific event arise in future (retirement, employment termination, death). Some non job classes (such as managers) are not subject to union rules and do not accumulate sick days. However, they keep those accumulated in the past until they retire, stop working or die.

Use of sick days

In cases of employment termination or death, the sick days accumulated are repaid in a single lump sum (at only at 50%), subject to a 66-day maximum.

Upon retirement, individuals can have their accumulated sick days repaid (still at 50%, subject to a 66-day maximum), or use them for pre-retirement purposes, that is, maintain the employer/employee relationship until their bank of accumulated sick days is depleted.

Valuation and subsequent estimations

The provision for sick leave resulting from the accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

Indexation rate	2% to 4.35%
Discount rate	0% to 4.25%
Average remaining service period of active employees	13 years

Provision for vacation time

No actualization calculation for the provision for vacation time is considered necessary since the Centre deems that vacation time accumulated will be taken the following fiscal year.

19. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

	2009	2008
Opening balance	\$33 351 179	\$43 351 179
Transfer at March 31 to eliminate the cumulated deficit		(10 000 000)
Closing balance	<u>\$33 351 179</u>	<u>\$33 351 179</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

19. GOUVERNEMENT DU QUÉBEC CONTRIBUTION (cont'd)

The Centre is authorized to use part of the Gouvernement du Québec contribution to eliminate the cumulated deficit. The initial contribution was composed of surpluses cumulated by the Government Services Fund and the Government Information Fund at December 5, 2005. For the fiscal year ended March 31, 2009, no amount was used.

20. CAPITAL MANAGEMENT

The Centre defines its capital as equity. During the fiscal year, the Centre met all of the capital requirements to which it is subject.

The Centre manages its capital by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the intentions specified in its incorporating act.

21. COMMITMENTS**Réseau intégré de télécommunication multimédia (RITM) project**

To bring this project to term, the Centre has made contractual commitments with a supplier for network services to government departments and agencies and health establishments in the amount of \$438 425 000 broken down as:

2010	\$92 300 000
2011	92 300 000
2012	92 300 000
2013	92 300 000
2014	69 225 000
	<u>\$438 425 000</u>

RENIR project

To bring this project to term, the Centre has made contractual commitments with various suppliers in the form of service contracts for project design, performance and implementation and for the acquisition of equipment needed for its deployment, in the amount of \$4 724 824 broken down as:

2010	\$2 374 300
2011	2 078 292
2012	272 232
	<u>\$4 724 824</u>

Leasing contracts

The Centre has made commitments under various leasing contracts for automotive equipment, photocopiers and telecommunication sites for minimum payments of \$1 113 185 broken down as:

2010	\$563 318
2011	277 856
2012	234 107
2013	28 202
2014	9 702
	<u>\$1 113 185</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**21. COMMITMENTS** (cont'd)**Other**

The Centre has also contracted other commitments for maintenance, acquisition of inventories and capital assets for a total of \$25 778 368 broken down as:

2010	\$17 883 135
2012	7 445 443
2012	392 955
2013	56 835
	<u>\$25 778 368</u>

22. CASH FLOWS

Cash and cash equivalents shown in the statement of cash flows include the following amounts reported in the balance sheet:

	2009	2008
Cash	\$12 319 923	\$33 172 232
Amount owing to the Consolidated Revenue Fund	<u>(33 445 156)</u>	<u></u>
(Deficiency of) cash and cash equivalents	<u>\$(21 125 233)</u>	<u>\$33 172 232</u>

Interest paid by the Centre during the fiscal year totalled \$532 017 (2008: \$316 862).

Further, \$4 084 749 was invested in capital assets during the year in consideration for a long-term debt of the equivalent amount (2008: \$5 515 396).

Finally, during the fiscal year, capital assets and intangible assets of \$52 748 700 and \$25 083 483 respectively (2008: \$20 465 300 and \$16 169 530) were acquired, including \$2 155 643 and \$4 388 466 respectively for accounts payable and accrued liabilities at March 31, 2009 (2008: \$1 918 342 and \$2 375 499).

Changes in the non-cash elements linked to operations

	2009	2008
Accounts receivable	\$(37 717 917)	\$(30 989 502)
Inventories	126 005	351 986
Prepaid expenses	(4 294 508)	3 395 130
Long-term accounts receivable	2 401 584	1 200 792
Gouvernement du Québec note receivable	(9 403 593)	2 508 200
Deferred expenses	2 013 961	3 831 792
Accounts payable and accrued liabilities	10 804 049	14 430 468
Prepaid revenues	2 665 068	(1 440 190)
Long-term accounts payable	(3 600 792)	(1 200 792)
Deferred Government contributions	1 787 502	
Provision for sick leave	10 646 855	1 410 447
	<u>\$(24 571 786)</u>	<u>\$(6 501 669)</u>

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

23. FUTURE FRINGE BENEFITS

Pension plans

Centre staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These inter-enterprise defined-benefit plans include guaranteed payments on retirement and death.

The Centre's contributions charged to the year-end statement amount to \$6 594 036 (2008: \$3 602 480). The Centre's liability towards these Government plans is restricted to its employer contributions.

24. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Centre is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Centre did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements. The majority of the Centre's revenue is generated by operations with entities included in the Gouvernement du Québec's reporting entity.

On April 1, 2008, an agreement was concluded to have the Centre definitively take over Ministère de l'Emploi et de la Solidarité sociale (MESS) information technology services. The results of these activities are reported in the Centre's financial statement for the fiscal year. Further, the Centre acquired capital assets whose net value was assessed at \$17.5 M from the MESS on April 1, 2008.

25. FINANCIAL INSTRUMENTS

Fair value

The cost of short-term financial instruments represents a reasonable estimate of the fair value, given their pending maturity.

The fair value of long-term accounts receivable is estimated at \$2 390 148 (2008: \$4 655 756) and that of long-term accounts payable at \$6 565 663 (2008: \$9 774 439), given their values discounted at an interest rate of 0.82 % (2008: 3.91%).

The fair value of the Gouvernement du Québec note receivable and amounts owing cannot be assessed, given the absence of a market value for this type of asset.

The fair value of amounts owed to the Société immobilière du Québec is estimated at \$8 199 931 (2008: \$5 417 123) based on its actualized value at an interest rate of 4.60% (200: 4.28%).

Management risks linked to financial instruments

Management set up monitoring and management policies and procedures allowing it to manage the risks inherent in financial instruments and minimize their potential impacts.

Liquidity risk

The liquidity risk is the risk that the Centre may not be able to honour its financial obligations when they come due. The Centre manages this risk by taking into account its operating needs and using its credit facilities. The Centre establishes budget and cash position forecasts to ensure that it has the funds available to meet its obligations.

The Centre believes that the cash flows generated by its operating activities and the financing sources available should be sufficient to meet its obligations as they come due.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

25. FINANCIAL INSTRUMENTS (cont'd)**Credit risk**

The Centre's credit risk exposure corresponds to the accounting value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The Centre conducts an ongoing assessment of these assets and posts a provision for losses when accounts are deemed uncollectible.

Management deems that the Centre is not exposed to a significant credit risk, given that the cash and cash equivalents are invested in major financial institutions and given that the Centre does business primarily with public organizations.

Interest rate risk

Interest rate volatility affects the fair value of financial assets and liabilities (market risk linked to interest rates).

The long-term debt owing to the Société immobilière du Québec bears interest at a fixed rate. Given that the Centre plans to repay the borrowing in full at term, the risks to which it is exposed regarding the long-term debt are minimal.

26. PRIVATIZATION OF SOME OF THE CENTRE'S SECTORS

In the Gouvernement du Québec's 2007-2008 Budget Speech of May 24, 2007, there was talk of privatizing five government services, three of which were attached to the Centre: government photocopying services, supplies and furnishings Québec (FAQ) and the national integrated radio communications network (RENIR)

For government photocopying services, the Centre finalized the shutdown of the two central workshops on April 1, 2008 and four others on October 1, 2008. At the request of government departments and agencies, five workshops were maintained to meet specific confidentiality criteria.

Under the RENIR project, the installation and maintenance of network and terminal equipment and site infrastructures have been performed by an outside supplier since 2008-2009. During this same period, a call for tenders was published for operating the customer assistance centre and the networks continuity centre. Once all partners' endorsement of RENIR services has ended, the Centre will begin deliberations on eventually transferring ownership of RENIR's radiocommunications and infrastructure sites to private enterprise.

As regards the FAQ, the Centre has set up purchasing groups allowing government departments and agencies to procure supplies and furniture. Phase I, which targets standard furnishings such as office supplies and software, was completed in 2007-2008. Phase II, which was completed in fiscal 2008-2009, targeted specific supplies.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

27. DISCONTINUED OPERATIONS

Activities involving the sale of the FAQ's specific supplies were discontinued in the fiscal year ended March 31, 2009 and sale of standard FAQ supplies, such as software, were discontinued in the fiscal year ended March 31, 2008. In the coming fiscal year, the Centre will finish liquidating the FAQ's assets that were unsold at March 31, 2009. Since the related financial information can be clearly distinguished, the revenues and expenses linked to these activities have been reclassified from current operations to profits from discontinued operations. This information breaks down as:

	2009	2008
REVENUES	\$13 982 114	\$44 934 665
SALES COSTS	12 122 443	40 066 512
GROSS PROFIT	1 859 671	4 868 153
Other revenue	29 062	81 435
	1 888 733	4 949 588
OPERATING EXPENSES	993 015	2 299 841
	895 718	2 649 747
Gain on sale of capital assets	16 100	
PROFIT FROM DISCONTINUED OPERATIONS	<u>\$911 818</u>	<u>\$2 649 747</u>

28. CONTINGENCIES

The Centre is involved in a lawsuit. At the time these financial statements were being prepared, the Centre was not in a position to determine the outcome of this lawsuit or the resulting financial impacts, where applicable.

29. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

30. RESULTS BY ACTIVITY SECTOR

	March 31, 2009	
	Computer resources	SAGIR
REVENUES	\$277 704 256	\$73 170 130
SALES COSTS	265 352 230	58 673 631
GROSS PROFIT	12 352 026	14 496 499
Gouvernement du Québec contribution	8 171 268	
Other revenues	13 375	270
	20 536 669	14 496 769
OPERATING EXPENSES		
Sales costs	1 863 195	5 679 506
Administrative expenses	19 317 945	3 430 662
Financial costs	613 371	5 699 916
	21 794 511	14 810 084
	(1 257 842)	(313 315)
Gain on sale of capital assets		
Loss on sale of capital assets		
Loss on sale of intangible assets		
(NET LOSS) SURPLUS BEFORE DISCONTINUED OPERATIONS	(1 257 842)	(313 315)
Discontinued operations (Note 27)		
(NET LOSS) SURPLUS	<u>\$(1 257 842)</u>	<u>\$(313 315)</u>

March 31, 2009					
Acquisitions	Material and documentary resource services	Means of communication, government publications and events management	Human resources	Intersectorial transactions	Total
\$18 590 333	\$41 084 117	\$67 997 200	\$23 836 976	\$(31 468 975)	\$470 914 037
15 358 184	36 467 227	61 871 050	22 210 901	(22 212 515)	437 720 708
3 232 149	4 616 890	6 126 150	1 626 075	(9 256 460)	33 193 329
5 240	130 926	117 298			8 171 268 267 109
3 237 389	4 747 816	6 243 448	1 626 075	(9 256 460)	41 631 706
284 815	785 928	2 537 047	5 889	(263 581)	10 892 799
1 445 770	2 907 773	3 929 815	2 531 486	(8 992 879)	24 570 572
3 850	45 603	37 273	33 666		6 433 679
1 734 435	3 739 304	6 504 135	2 571 041	(9 256 460)	41 897 050
1 502 954	1 008 512	(260 687)	(944 966)		(265 344)
	28 976 (2 974)				28 976 (2 974)
(220 370)					(220 370)
1 282 584	1 034 514	(260 687)	(944 966)		(459 712)
	911 818				911 818
<u>\$1 282 584</u>	<u>\$1 946 332</u>	<u>\$(260 687)</u>	<u>\$(944 966)</u>		<u>\$452 106</u>

The Centre's running costs are attributed to all activity sectors. Further, no governing cost was posted to discontinued operations.

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Centre de services partagés du Québec (Centre) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All financial information contained in the remainder of the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Centre recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing and risk management committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Centre's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing and risk management committee to discuss any matter related to the audit.

Diane Jean
President-CEO

Josette Legrand, CA
Director General, Strategic Management Services

Québec, October 26, 2009

CENTRE DE SERVICES PARTAGÉS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Centre de services partagés du Québec as at March 31, 2009 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Centre management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Centre's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes to accounting policy for inventory, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, October 26, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN
(R.S.Q., c. R-10)
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	33 452 415	45 577 064
Employer contributions fund	2 424	5 903
Supplemental pension plans fund	<u>621 590</u>	<u>839 523</u>
	34 076 429	46 422 490
Accounts receivable		
Employee contributions	136 231	110 735
Employer contributions	7 463	6 068
Amounts receivable from the Gouvernement du Québec	54 139	62 149
Amounts receivable – transfers	<u>5 340</u>	<u>3 969</u>
	203 173	182 921
Cash on hand	8 548	6 580
	<u>34 288 150</u>	<u>46 611 991</u>
LIABILITIES		
Contribution refunds and pensions payable	24 101	17 632
Surplus employee contributions to be refunded	35 637	29 852
Administrative expenses payable	<u>15 497</u>	<u>18 943</u>
	75 235	66 427
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u><u>34 212 915</u></u>	<u><u>46 545 564</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (Note 7)

COMMITMENTS (Note 10)

The notes are an integral part of these financial statements.

For the pension committee,

Denis Doré
Raymond David

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	1 121 713	975 071
Contributions of independent employers	117 348	88 143
Transfers of funds accumulated in a supplemental retirement plan		317 782
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	1 791 841	1 863 280
Interest income	2 523	3 079
	<u>3 033 425</u>	<u>3 247 355</u>
Amounts received or receivable from the Gouvernement du Québec		
Regular service	1 225 892	1 059 948
Transferred service	208 859	205 531
	<u>1 434 751</u>	<u>1 265 479</u>
	<u>4 468 176</u>	<u>4 512 834</u>
DECREASE IN NET ASSETS		
Benefits paid		
General plan		
Pensions	2 554 243	2 256 938
Contribution refunds, including interest	44 835	38 923
Transfers, including interest	139 784	127 747
Transfer of contributions cumulated by those targeted, including interest to Pension Plan of Management Personnel	290 660	105 204
Supplemental pension plans		
Pensions	51 850	46 353
Contribution refunds, including interest	169	310
Transfers, including interest	734	46
Administrative expenses	50 658	52 673
Change in fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	13 667 892	(298 395)
	<u>16 800 825</u>	<u>2 329 799</u>
NET (DECREASE) INCREASE FOR THE YEAR	(12 332 649)	2 183 035
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>46 545 564</u>	<u>44 362 529</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u>34 212 915</u>	<u>46 545 564</u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE RREGOP

The following description of the Government and Public Employees Retirement Plan (RREGOP) is given for information purposes only. For more complete information concerning this plan, see the *Act respecting the Government and Public Employees Retirement Plan* (R.S.Q., c. R-10).

a) General information

The RREGOP is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to employees belonging to the civil service, health and social services and education sectors since July 1, 1973.

The pensions and benefits described below may differ for certain categories of employee designated by the Government.

b) Funding

Benefits for regular service are funded by contributors, the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after this date. However, additional rentes resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$680 million and the remainder by the Government.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to plan administration are assumed by the RREGOP and divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 35 years' pensionable service.

Contributors are entitled to pension benefits without an actuarial reduction at age 55.

The pension is obtained by multiplying the average pensionable earnings for the 5 best-paid years by 2% per year of service. It can be added to pension credits acquired by redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluations of certain years of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Survivor's benefits

If a contributor or a pensioner age 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. If there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, if applicable.

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is/are entitled to a refund of contributions, plus interest, if the deceased had fewer than 2 years' pensionable service. If the deceased had more than 2 years' pensionable service, the surviving spouse or assigns is/are entitled to the refund of contributions, plus interest, or actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the RREGOP before being eligible for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under age 55. Otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the RREGOP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE RREGOP (cont'd)

f) Indexation of benefits

RREGOP pension benefits are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Year-to-date financial data

These statements combine financial data for the following three funds:

- Employee contributions fund;
- Employer contributions fund;
- Supplemental pension plan fund.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of these individual funds are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. The share of these gains or losses is added to the cost of participation deposits.

3. CAPITALIZATION POLICY

In keeping with section 174 of the *Act respecting the Government and Public Employees Retirement Plan*, CARRA actuaries must conduct an actuarial valuation of the RREGOP every 3 years. The goal of this valuation is to determine the employee contribution rate based on the value of the pension fund set up and benefits to be paid out.

This valuation is based on assumptions established by CARRA actuaries and deemed appropriate by the consulting actuary appointed by the retirement committee under the Act. Moreover, the parties have agreed to use the overall attained-age actuarial cost method, net assets.

The employee contribution and the contribution of independent employers for the fiscal year are established using a rate of 8.19% of the surplus eligible earnings over 35% of maximum pensionable earnings within the meaning of the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9). The contribution rate was established based on the actuarial valuation conducted using data as at December 31, 2005 and reflects the changes made to the RREGOP until its publication in October 2007. This rate corresponds to 5.51% of the pensionable earnings.

The *Act respecting the Government and Public Employees Retirement Plan* does not require the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are disclosed in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those for contributors and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. CAPITALIZATION POLICY (cont'd)

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the CDP.

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the CDP is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act. The same conditions apply to payment of benefits related to pension credits acquired by buyback payable to RREGOP and Pension Plan of Management Personnel beneficiaries (PPMP).

The amounts needed to pay the additional rentes resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund. Since the \$680 million maximum assumed by the employees was reached, the Government paid the amounts required into this fund to cover the value of benefits acquired during the fiscal year.

The amounts needed to pay benefits for pension credits acquired through the transfer of supplemental pension plans for RREGOP and PPMP beneficiaries are taken from the Supplemental Pension Plan Fund in which they had been deposited when the transfers occurred.

The amounts needed to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**a) Investments**

	2008				2007
	Employee contributions fund	Employer contributions fund	SPP fund **	Total	Total
Participation deposits in individual funds – at fair value (cost 2008: \$44 891 331; 2007: \$52 253 592) *	33 146 575		615 609	33 762 184	46 303 344
Demand deposits in the General Fund (advances)	53 984	2 424	1 168	57 576	31 307
Revenue receivable from individual funds	251 856		4 813	256 669	87 839
	<u>33 452 415</u>	<u>2 424</u>	<u>621 590</u>	<u>34 076 429</u>	<u>46 422 490</u>
* Cost of units				38 595 279	38 786 517 ¹
Cumulative share of net gains realized but not yet distributed by individual portfolios				<u>6 296 052</u>	<u>13 467 075</u> ¹
				<u>44 891 331</u>	<u>52 253 592</u>

1. Adjustments of \$353 373 000 to the cost of units and \$16 597 000 to the cumulative share of net gains realized but not yet distributed by individual portfolios have been made to reflect Pension plan for certain employees of the Commission scolaire de la Capitale and Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal data.

** Supplemental pension plans

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPs (cont'd)**Effect on the results of special RREGOP funds

For the fiscal year ended December 31, 2008, the share in expenses attributed to special RREGOP funds (301), the Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal (361) and the Pension plan for certain employees of the Commission scolaire de la Capitale (362) is \$1 275 million for an investment in ABCPs, via the CDP, of \$4 078 million. This share comprises:

- the share of the \$1 193 million (\$592 million in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$3 million (\$82 million in 2007);
- the share of the \$79 million (\$20 million in 2007) realized losses on these securities minus gains realized upon sale.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the Deposit Insurance Fund.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special RREGOP funds is \$2165 million.

The share in unrealized losses on ABCPs attributed to the special RREGOP fund of \$1 193 million presented above includes \$80 million for guarantees associated with ABCPs (\$122 million in 2007).

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities equals their book value, given that they mature in the short term.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. NET ASSETS AVAILABLE FOR BENEFITS

	2008			2007
	Employee contributions	Employer contributions	Total	Total
Regular service	33 157 111	243 515	33 400 626	45 433 505
Transferred service		13	13	511
Pension credits acquired by buy-outs	189 918		189 918	272 198
Supplemental pension plans *	342 215		342 215	485 444
Pension plan for certain employees of the Commission scolaire de la Capitale *	39 101		39 101	48 909
Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal *	241 042		241 042	304 997
	<u>33 969 387</u>	<u>243 528</u>	<u>34 212 915</u>	<u>46 545 564</u>

* Transfers of the assets of these plans include the employees and employers share. The amounts needed to pay benefits are taken from the funds into which they were deposited when transferred, regardless of each party's share.

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. Under the Act respecting the Government and Public Employees Retirement Plan, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

The pension costs for the RREGOP correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (cont'd)

Change in the liability recorded in the Government's financial statements

	2008	2007
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	28 239 490	26 063 754
Increase		
Pension costs		
Current service	1 220 123	1 148 203
Past service	244 398	195 965
Interest	2 074 052	1 887 213
	3 538 573	3 231 381
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	1 146 218	974 947
Inter-plan transfers for past service	90 705	80 698
	1 236 923	1 055 645
Net increase for the year	2 301 650	2 175 736
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	30 541 140	28 239 490
Estimated liability recorded as at December 31	32 437 309	30 119 114
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	2 248 331	2 272 220
Estimated liability recorded as at December 31	2 230 205	2 255 065

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the CDP to provide for payment of part of or all Government pension plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under pension plans, before deduction of the balance of this fund (\$62 606 billion as at March 31, 2008).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the fair value of the funds entrusted to the Caisse de dépôt et placement du Québec for this purpose was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE RREGOP (cont'd)**Financing regular service**

In keeping with the Act respecting the Government and Public Employees Retirement Plan, CARRA actuaries conduct an actuarial valuation every three years regarding financing regular service. In this valuation, the actuaries take legislative provisions and collective agreements into account using the valuation method the parties agree to and determining the employee and employer contribution rates and Government contribution. Consequently, from the beginning of the RREGOP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the RREGOP. The fair value of this fund was estimated at \$34 361 billion as at December 31, 2008.

In its consolidated financial statements for the year ending March 31, 2008, the Government does not recognize having commitments to the RREGOP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the RREGOP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, for which it is responsible, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions, and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the RREGOP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the RREGOP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since there is evidence that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute, before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Other management organizations became involved in this request, which was granted by the Superior Court in March 2007. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

For the year, the Government's contribution for regular service corresponds to 5.32% of the pensionable earnings of unionizable contributors. This contribution was established based on the actuarial valuation conducted on the basis of data as at December 31, 2005 and reflects the changes made to the RREGOP since its publication in October 2007. For pension credits acquired by buy-outs, the Government contribution corresponds to 140% of that of employees.

The interest credited to this fund and the unrealized gains (losses) are calculated using the annual rate of return of the funds of the RREGOP, including the (losses) gains made but not yet distributed by the specialized portfolios entrusted to the CDP.

Change in the fund the Government would have created (at fair value)

	2008	2007
Opening balance	46 928 725	45 040 612
Increase		
Gouvernement du Québec contributions	974 990	841 584
Interest	(6 834 660)	6 179 714
Unrealized (losses)	(5 168 933)	(3 961 516)
	35 900 122	48 100 394
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	1 235 011	1 061 392
Inter-plan transfers for past service	303 737	110 277
Closing balance	34 361 374	46 928 725

The equivalent cost value was \$45 979 709 000 at December 31, 2008 (\$53 378 127 000 at December 31, 2007).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the RREGOP administrator. These obligations represent the value of benefits attributable to the years of service accumulated at the date of valuation.

The assumptions used by CARRA are those deemed probable by its actuaries in the actuarial valuation prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at:

- \$57 595 615 000 at December 31, 2005 for regular service and additional pensions;
- \$2 910 702 955 at December 31, 2006 for years of service transferred from the TPP and CSSP, pension credits awarded to certain pensioners in the health and social services network and for supplemental pension plans;
- \$771 990 000 at December 31, 2007 for pension credits acquired bought back; for the Pension plan for certain employees of the Commission scolaire de la Capitale and Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal.

The benefits' total actuarial value was estimated at \$73 809 124 000 at December 31, 2008.

	2008			2007
	Employees	Employers	Total	Total
Regular service	34 761 494	35 487 789	70 249 283	66 204 522
Transferred service		2 509 358	2 509 358	2 530 023
Pension credits acquired by buy-out	186 219	257 466	443 685	433 868
Supplemental pension plans	300 220		300 220	304 837
Pension plan for certain employees of the Commission scolaire de la Capitale	43 416		43 416	44 731
Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal	263 162		263 162	273 694
	<u>35 554 511</u>	<u>38 254 613</u>	<u>73 809 124</u>	<u>69 791 675</u>

The obligations related to benefits for regular service include \$988 678 000 (\$996 302 000 at December 31, 2007) for additional pensions.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Change in accrued pension obligations**

	2008	2007
Opening actuarial present value of accrued pension benefits	69 791 675	64 230 494
Increase		
Actuarial loss	51 392	
Change in actuarial assumptions	8 561	1 364 122
Transfer from the Pension plan for certain employees of the Commission scolaire de la Capitale		44 731
Transfer from the Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal		273 694
Interest	4 534 765	4 243 342
Benefits accrued	2 720 326	2 537 839
	7 315 044	8 463 728
Decrease		
Actuarial gain		455 107
Corrections to participant data	11 595	
Benefits paid	2 788 845	2 445 697
Inter-plan transfers	497 155	1 743
	3 297 595	2 902 547
Net increase for the year	4 017 449	5 561 181
Closing actuarial present value of accrued pension benefits	73 809 124	69 791 675

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.30%

Medium-term rates represent the average rates for the period 2006 to 2016 while long-term rates represent rates used as of 2017.

Employee obligations for capitalization purposes

Employee contributions paid into the pension fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according to Canadian generally accepted accounting principles for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the RREGOP, the method used by interested parties to determine employee contribution rates is the overall attained-age actuarial cost method, net assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created; there can be no asset deficit or surplus.

For capitalization purposes, the value of actuarial obligations for which contributors are responsible with respect to regular service and additional benefits was \$38 178 565 000 as at December 31, 2005 and \$33 157 111 000 as at December 31, 2008, which corresponds to the market value of the employee fund at these dates.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008				2007
	Employee contributions fund	Employer contributions fund	SPP fund *	Total	Total
Net investment income from individual funds	1 757 548		33 039	1 790 587	1 861 757
Interest on demand deposits in the General Fund	1 023	65	166	1 254	1 523
	<u>1 758 571</u>	<u>65</u>	<u>33 205</u>	<u>1 791 841</u>	<u>1 863 280</u>
Change in fair value					
(Losses) Gains from the sale of investments	(1 847 676)		(32 848)	(1 880 524)	1 150 480
Share of (losses) gains realized in individual portfolios	(6 518 132)		(90 336)	(6 608 468)	3 039 502
Unrealized (losses)	<u>(5 104 539)</u>		<u>(74 361)</u>	<u>(5 178 900)</u>	<u>(3 891 587)</u>
	<u>(13 470 347)</u>		<u>(197 545)</u>	<u>(13 667 892)</u>	<u>298 395</u>

* Supplemental pension plans.

10. COMMITMENTS

CARRA undertook comprehensive, overall modernization of its business processes and systems. This involved a global investment plan (GIP) that proposes a new business vision and new corporate structure. In this context, the Gouvernement du Québec authorized CARRA to contract short-term or credit margin borrowings until December 31, 2009 to finance the GIP. The amounts of these borrowings is limited to \$87 136 735. On March 24, 2009, the Board of Directors adopted a resolution for setting up a short or long-term borrowing plan that would bring borrowings up to \$113 400 000 until December 31, 2010. CARRA is waiting for the order-in-council to be approved. According to agreements between the parties, the RREGOP and PPMP committed to assuming 93% and 7% respectively of the GIP's computer system development cost. The expenses related to this development are expected to be posted to the RREGOP and PPMP at the rate at which CARRA amortizes them as of the date they become operational. At December 31, 2008, CARRA had borrowed \$68 575 000 (\$42 285 000 at December 31, 2007).

11. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding regular service and additional benefits resulting from the revaluation of certain years of service acquired at December 31, 2005. This estimate uses contributors' profiles as at December 31, 2005 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$57 595 615 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2005 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of Actuarial Services, Development

André Simard, FICA, FSA
Interim Head of Actuarial Services

Alain Jacob, FICA, FSA
Actuary

Québec, December 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired by buy-out for past service using contributors' profiles as at December 31, 2007 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$453 565 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2007 PERFORMED FOR PENSION CREDITS ACQUIRED BY BUY-OUT OF PAST SERVICE AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Interim Head of Actuarial Services

Jean Dessureault, FICA, FSA
Actuary

Québec, March 13, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan using contributors' profiles as at December 31, 2006 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$2 601 285 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2006 PERFORMED FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 7, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits awarded certain retired social affairs sector employees using contributors' profiles as at December 31, 2006 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$358 955.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2006 PERFORMED FOR PENSION CREDITS AWARDED CERTAIN RETIRED SOCIAL AFFAIRS SECTOR EMPLOYEES AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the assumptions comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Québec, November 12, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the supplemental pension plans to the Plan using contributors' profiles as at December 31, 2006 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$309 059 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2006 PERFORMED FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE SUPPLEMENTAL PENSION PLANS AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, March 4, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the Pension plan for certain employees of the Commission scolaire de la Capitale using contributors' profiles as at December 31, 2007 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$44 731 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2007 PERFORMED FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE PENSION PLAN FOR CERTAIN EMPLOYEES OF THE COMMISSION SCOLAIRE DE LA CAPITALE AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 19, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Government and Public Employees Retirement Plan regarding pension credits acquired following the transfer of the Pension plan for non-teaching staff of the Commission des écoles catholiques de Montréal using contributors' profiles as at December 31, 2007 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$273 694 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN AT DECEMBER 31, 2007 PERFORMED FOR PENSION CREDITS ACQUIRED FOLLOWING THE TRANSFER OF THE PENSION PLAN FOR NON-TEACHING STAFF OF THE COMMISSION DES ÉCOLES CATHOLIQUES DE MONTRÉAL AND FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 20, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

GOVERNMENT AND PUBLIC EMPLOYEES RETIREMENT PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Government and Public Employees Retirement Plan as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 8, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. C-32.1.2)

PENSION PLANS OF MANAGEMENT PERSONNEL

(R.S.Q., c. R-12.1)

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2008

(in thousands of dollars)

	2008	2007
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	6 029 017	7 684 966
Employer contributions fund	5	4
	<u>6 029 022</u>	<u>7 684 970</u>
Accounts receivable		
Employee contributions	22 613	14 159
Employer contributions	2 729	1 205
Amounts receivable from the Gouvernement du Québec	56 226	54 869
Amounts receivable – transfers	1 278	934
	<u>82 846</u>	<u>71 167</u>
Cash on hand	1 480	833
	<u>6 113 348</u>	<u>7 756 970</u>
LIABILITIES		
Contribution refunds and pensions payable	1 447	4 276
Surplus employee contributions to be refunded	2 642	2 151
Administrative expenses payable	1 158	1 489
	<u>5 247</u>	<u>7 916</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 6 and 8)	<u>6 108 101</u>	<u>7 749 054</u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (Note 7)**COMMITMENTS (Note 11)**

The notes are an integral part of these financial statements.

For the pension committee,

Marie-Claire Martineau
Réjean Martel

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL**

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	199 201	135 964
Transfer of contributions cumulated by those targeted from the Government and Public Employees Retirement Plan, including interest	290 660	105 204
Contributions of independent employers	34 698	23 171
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	302 255	313 727
Interest income	<u>287</u>	<u>342</u>
	827 101	578 408
Amounts received or receivable from the Gouvernement du Québec		
Regular service	302 410	164 372
Transferred service	101 090	98 036
Regular service – Senior officials	<u>44 304</u>	<u>37 107</u>
	447 804	299 515
	<u>1 274 905</u>	<u>877 923</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions (Note 10)	660 895	586 014
Contribution refunds, including interest	3 392	4 028
Transfers, including interest	23 959	27 726
Administrative expenses	<u>3 509</u>	<u>4 070</u>
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 9)	2 191 307	(72 954)
	2 883 062	548 884
Amounts deposited in the Consolidated Revenue Fund (Note 3)	<u>32 796</u>	<u>22 464</u>
	2 915 858	571 348
NET (DECREASE) INCREASE FOR THE YEAR	(1 640 953)	306 575
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>7 749 054</u>	<u>7 442 479</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u><u>6 108 101</u></u>	<u><u>7 749 054</u></u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Management Personnel

The following description of the Pension Plan of Management Personnel (PPMP) is given for information purposes only. For more complete information on the plan, see the *Act respecting the Pension Plan of Management Personnel* (R.S.Q., c. 12.1).

a) General information

The PPMP is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to ununionizable public and parapublic sector employees appointed or hired on or after January 1, 2001.

The PPMP also applies ununionizable public and parapublic sector employees appointed or hired before January 1, 2001 who contributed to the Government and Public Employees Retirement Plan (RREGOP) at December 31, 2000.

The pensions and benefits described below may differ for certain classes of employees determined by the Government, including senior officials.

b) Funding

Benefits for regular service are funded by contributors and the Government and other employers in the following proportions: 5/12 and 7/12 for service prior to July 1, 1982, and equal shares for service after to this date. However, additional benefits resulting from the revaluation of certain years of service entitling employees to pension credits are financed by contributors to a maximum of \$172 million and the remainder is assumed by the Government.

For senior officials, benefits are funded by participants and self-employed employers in accordance with the contribution rates set by law and the Government, which assumes the balance of obligations related to benefits.

Benefits for service transferred from the Teachers Pension Plan (TPP) and the Civil Service Superannuation Plan (CSSP) are funded by the Government.

Administrative expenses

Expenses related to PPMP administration are assumed by the plan and divided equally between the employee and employer contribution funds.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 35 years' pensionable service or age 55 if their age and years of service total 88.

Contributors are entitled to pension benefits without an actuarial reduction at age 55.

The pension is obtained by multiplying the average pensionable earnings for the three best-paid years by 2% per year of service. It can be added to pension credits granted following redemption of past service or the transfer of funds from supplemental pension plans and additional benefits resulting from the revaluation of certain years of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Survivor's benefits

If a contributor or a pensioner age 55 or over dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% of such a pension if the deceased had chosen to receive a pension reduced by 2%. If there is no surviving spouse, contributions, plus interest, are refunded to the heirs, minus pension amounts paid, if applicable.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

d) Survivor's benefits (cont'd)

If a contributor dies before the eligible retirement age of 55, the surviving spouse or heirs is/are entitled to the refund of contributions, plus interest, if the deceased had fewer than two years' pensionable service. If the deceased had more than two years' pensionable service, the surviving spouse or assigns is/are entitled to the refund of contributions, plus interest, or to the actuarial value of the deferred indexed pension, whichever is higher.

e) Severance benefits

Persons who cease to contribute to the PPMP before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than two years' pensionable service and are under age 55; otherwise they are entitled to a deferred indexed pension payable at age 65, or may request that the total contributions paid into the PPMP, plus interest, or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

f) Indexation of benefits

PPMP pension benefits are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension which corresponds to vested service after June 30, 1982.

Supplementary Pension Plan for Senior Officials

In keeping with section 208 of the Act respecting the Pension Plan of Management Personnel, the Government established the Supplementary Pension Plan for Senior Officials by Order-in-Council 461-92. This is a defined-benefit plan offered certain senior officials eligible for benefits under the *Act respecting the Pension Plan of Management Personnel*. The plan provides for additional pensions at the base amount determined in keeping with the Act. The benefits paid out under this plan are funded by the Government.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of these individual funds are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. The share in these gains or losses is added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. CAPITALIZATION POLICY

In keeping with section 171 of the *Act respecting the Pension Plan of Management Personnel*, CARRA actuaries must conduct an actuarial valuation of the PPMP every three years. The goal of this valuation is to determine the employee contribution rate based on the value of the pension fund set up and benefits to be paid out.

The PPMP pension committee adopted a policy for provisioning benefits payable by participants. It uses the accumulated benefit method with wage projections and the estimates and assumptions deemed relevant by the actuarial consultant appointed by the pension committee under the Act to determine the plan's financial position. The fair value of cash on hand is adjusted to gradually reflect, over a 5-year period, discrepancies between actual and anticipated yield.

The provisioning policy also provides for creating a stabilization fund to provide for unfavourable discrepancies whose maximum value is 10% of the actuarial value of accumulated benefits paid by participants. The actuarial gains are paid into this fund and the losses absorbed by it. For capitalization purposes, the financial position is defined as a surplus when the actuarial value of the participants' working fund exceeds the actuarial value of accumulated benefits and the maximum value of the stabilization fund. Finally, the required contribution rate minus the surplus amortized over 15 years must make it possible to finance the benefits acquired annually as well as the administrative expenses.

The fiscal year's employee and independent employer contribution are established using a rate of 10.54% of surplus pensionable earnings over 35% of maximum eligible earnings within the meaning of the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9). This contribution rate was established based on the actuarial evaluation performed using data defined at December 31, 2005 and reflects changes to the PPMP until the evaluation was released on October 2007. This rate corresponds to 8.52% of eligible earnings. At December 31, 2005, the results of this actuarial evaluation also showed that the PPMP's financial position reflected a surplus totalling \$140 million.

For CSSP and TPP participants who chose to participate in the PPMP, the contribution rate is increased by 4% without exceeding the rates of their original plans. However, these participants pay the PPMP rate when it exceeds these maximum amounts. For 2008, this rate was 10.54% for these participants.

The Act respecting the Pension Plan of Management Personnel does not require the Government to contribute to a pension fund. However, the Government's commitments to fund regular service are disclosed in Note 7. They are calculated as the fund it would have created, had its contributions, established on the same bases as those used for participants and according to the above-mentioned actuarial valuation, been deposited in a pension fund.

Employee contributions and the contribution of independent employers are deposited respectively in the employee contributions fund and employer contributions funds with the CDP.

The amounts needed to pay benefits for regular service performed since July 1, 1982 are also taken from the employee and employer contribution funds. The amounts required for service performed prior to July 1, 1982 are taken in a proportion of 5/12 from the employee contributions fund and 7/12 from the employer contributions fund. When the employer contributions fund with the CDP is empty, the remaining amounts required to pay the share of benefits assumed by the Government are taken from the Consolidated Revenue Fund, as prescribed in the Act.

The amounts needed to pay the additional rentes resulting from the revaluation of certain years of service entitling contributors to pension credits are taken from the employee contribution fund. Since the \$172 million maximum assumed by the employees was reached, the Government paid the sums needed to cover the value of the benefits acquired during the fiscal year into this fund.

Under the Act respecting the Government and Public Employees Retirement Plan, the benefits for pension credits acquired by buy-out or transfer from supplemental pension plans are taken from the respective RREGOP funds.

The amounts needed to pay all benefits for service transferred from the TPP and the CSSP are taken from the Consolidated Revenue Fund.

Amounts deposited in the Consolidated Revenue Fund

Under Order-in-Council 987-99, employee contributions from senior officials and those of their employees are deposited into the Consolidated Revenue Fund. The amounts needed for the payment of benefits are also taken from the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**a) Investments**

	2008		2007
	Employee contributions fund	Employer contributions fund	Total
Participation deposits in individual funds – at fair value (cost 2008: \$7 500 038; 2007: \$8 451 371) *	5 955 521		5 955 521
Demand deposits in the General Fund (advances)	34 167	5	34 172
Revenues receivable from individual funds	39 329		39 329
	<u>6 029 017</u>	<u>5</u>	<u>6 029 022</u>
			<u>7 686 646</u>
			<u>(15 786)</u>
			<u>14 110</u>
			<u>7 684 970</u>
* Cost of units			6 638 025
Cumulative share of net realized gains not yet broken down by individual portfolio			862 013
			<u>7 500 038</u>
			<u>8 451 371</u>

b) Third-party and bank-sponsored ABCPS

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPS).

ABCPS

ABCPS are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPS are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPS are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPS it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPS begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPs (cont'd)**Restructuring efforts (cont'd)

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of the special PPMP fund

For the fiscal year ended December 31, 2008, the share in expenses attributed to special PPMP fund is \$211.57 million for an investment in ABCPs, via the CDP, of \$675 million. The loss comprises:

- the share of the \$198 million (\$98 million in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$0.57 million (\$14 million in 2007);
- the share of the \$13 million (\$3 million in 2007) realized losses on these securities minus gains realized upon sale.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the PPMP.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF MANAGEMENT PERSONNEL****NOTES TO FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPS (cont'd)**Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special RREGOP funds is \$358 million.

The share in unrealized losses on ABCPs attributed to the special RREGOP fund of \$198 million presented above includes \$13 million for guarantees associated with ABCPs (\$358 million in 2007).

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities equals their book value, given that they mature in the short term.

6. NET ASSETS AVAILABLE FOR BENEFITS

	2008			2007
	Employee contributions	Employer contributions	Total	Total
Regular service	5 788 505	319 590	6 108 095	7 748 984
Transferred service		6	6	70
	<u>5 788 505</u>	<u>319 596</u>	<u>6 108 101</u>	<u>7 749 054</u>

The net assets available to pay benefits resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in the RREGOP financial statements, were, respectively, \$189 918 000 and \$342 215 000 as at December 31, 2008 (\$272 198 000 and \$485 444 000 as at December 31, 2007).

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP**Liability recorded in the Government's financial statements**

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. Under the Act respecting the Pension Plan of Management Personnel, the Government's share corresponds to 58.33% (7/12) of these benefits for years of service prior to July 1, 1982, 50% for years of service as of July 1, 1982 for regular service and 100% for transferred service and benefits payable to senior officials. The amount recorded corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

The pension costs for the PPMP correspond to the sum of the cost of accrued benefits, changes to this plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)**Change in the liability recorded in the Government's financial statements**

	2008	2007
For regular service		
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	5 530 256	5 013 151
Increase		
Contributions cashed	23 868	17 739
Pension costs		
Current service	205 460	187 454
Past service	61 210	39 438
Interest	412 790	362 243
Inter-plan transfers for past service	90 085	79 379
	793 413	686 253
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	324 871	169 148
Net increase	468 542	517 105
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	5 998 798	5 530 256
Estimated liability recorded as at December 31	6 283 188	5 833 393
For transferred service		
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	1 097 488	1 106 300
Estimated liability recorded as at December 31	1 088 589	1 100 545

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the CDP to provide for payment of part or all Government pension plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under pension plans, before deduction of the balance of this fund (\$62 606 billion at March 31, 2008).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

7. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPMP (cont'd)

Financing regular service

In keeping with the Act respecting the Pension Plan of Management Personnel, CARRA actuaries conduct an actuarial valuation every three years with respect to financing the regular service. In this valuation, the actuaries take legislative provisions and employment conditions into account by using the valuation method the parties agree to and determine the employee and employer contribution rates and the government contribution. Consequently, from the beginning of the PPMP, CARRA has presented the Government's commitments to financing regular service as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee fund, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPMP. The fair value of this fund is estimated at \$5 767 billion as at December 31, 2008.

In its consolidated financial statements for the year ending March 31, 2008, the Government does not recognize having commitments to the PPMP on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPMP, the Government's commitment vis-à-vis regular service must be determined based on the value of the benefits promised, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, since March 31, 1998, the pre-recorded contribution representing the difference between the fund the Government would have created, had it paid its contributions, and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements. However, these notes contain information on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPMP. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPMP does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since the evidence shows that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute, before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Other management employee organizations became involved in this request, which was granted by the Superior Court in March 2007. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

For the year, the Government's contribution for regular service corresponds to 8.08% of pensionable earnings. The contribution was established based on the actuarial valuation conducted on the basis of data as at December 31, 2005 and reflects the changes made to the PPMP since its publication.

The interest credited to this fund and the unrealized gains are calculated using the annual rate of return of the funds of the PPMP, including the gains made but not yet distributed by the specialized portfolios entrusted to the CDP.

Change in the fund the Government would have created (at fair value)

	2008	2007
Opening balance	7 439 584	7 072 843
Increase		
Gouvernement du Québec contributions	147 711	70 963
Interest	(1 067 396)	1 016 701
Unrealized (losses)	(732 260)	(652 653)
Inter-plan transfers for past service	279 358	95 271
	<u>6 066 997</u>	<u>7 603 125</u>
Decrease		
Payments received – benefits and administrative expenses paid by the Gouvernement du Québec	299 929	163 541
Closing balance	<u>5 767 068</u>	<u>7 439 584</u>

The equivalent cost value was \$7 331 034 000 at December 31, 2008 (\$8 271 290 000 at December 31, 2007).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined according to the projected benefit method prorated by service and the most probable assumptions in the opinion of the PPMP administrator. These obligations represent the value of benefits attributable to the accumulated years of service at the date of valuation.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at:

- \$11 027 390 000 at December 31, 2005 for regular service and additional benefits;
- \$1 259 457 000 at December 31, 2006 for years of service transferred from the TPP, CSSP
- \$707 591 000 at December 31, 2004 for senior officials.

They estimated the actuarial value of all of these benefits at \$15 568 728 000 at December 31, 2008.

	2008			2007
	Employee contributions	Employer contributions	Total	Total
Management Personnel				
Regular service	6 680 876	6 735 745	13 416 621	12 314 897
Transferred service		1 216 334	1 216 334	1 267 115
	<u>6 680 876</u>	<u>7 952 079</u>	<u>14 632 955</u>	<u>13 582 012</u>
Senior officials		935 773	935 773	851 965
	<u>6 680 876</u>	<u>8 887 852</u>	<u>15 568 728</u>	<u>14 433 977</u>

The obligations related to benefits for regular service include \$219 920 000 (\$224 431 000 at December 31, 2007) for additional benefits.

Change in accrued pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	<u>14 433 977</u>	<u>13 377 884</u>
Increase		
Actuarial loss	1 840	444 294
Interest	931 275	890 091
Benefits accrued	423 059	388 737
Inter-plan transfers	<u>494 623</u>	<u>27 910</u>
	<u>1 850 797</u>	<u>1 751 032</u>
Decrease		
Corrections to participant data	10 178	
Change in actuarial assumptions	18 635	77 074
Benefits paid	<u>687 233</u>	<u>617 865</u>
	<u>716 046</u>	<u>694 939</u>
Net increase for the year	<u>1 134 751</u>	<u>1 056 093</u>
Closing actuarial present value of accrued pension benefits	<u>15 568 728</u>	<u>14 433 977</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)

Change in accrued pension obligations (cont'd)

Pension obligations resulting from pension credits acquired by buy-out or transfer from supplemental pension plans, as shown in RREGOP financial statements, are, respectively, \$443 685 000 \$ and \$300 220 000 at December 31, 2008 (\$433 868 000 \$ and \$304 837 000 at December 31, 2007).

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.30%

Medium-term rates represent the average rates for the period 2006 to 2016 while long-term rates represent the rates used as of 2017.

9. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2208		2007
	Employee contributions fund	Employer contributions fund	Total
Net investment income from individual funds	301 783		301 783
Interest on demand deposits in the General Fund	462	10	472
	<u>302 245</u>	<u>10</u>	<u>302 255</u>
Change in fair value			
(Losses) gains from the sale of investments	(290 710)		(290 710)
Share in (losses) gains realized in the individual portfolios	(1 120 805)		(1 120 805)
Unrealized (losses)	<u>(779 792)</u>		<u>(779 792)</u>
	<u>(2 191 307)</u>		<u>(2 191 307)</u>
			<u>72 954</u>

10. BENEFITS TO CONTRIBUTORS

For fiscal 2008, \$2 629 613 (2007: \$2 344 587) was paid under the Senior Officials' Supplemental Pension Plan and is included in the item Gouvernement du Québec pension and change in net assets available for benefit service.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

11. COMMITMENTS

CARRA undertook comprehensive, overall modernization of its business processes and systems. This involved a global investment plan (GIP) that proposes a new business vision and new corporate structure. In this context, the Gouvernement du Québec authorized CARRA to contract short-term or credit margin borrowings until December 31, 2009 to finance the GIP. The amounts of these borrowings is limited to \$87 136 735. On March 24, 2009, the Board of Directors adopted a resolution for setting up a short or long-term borrowing plan that would bring borrowings up to \$113 400 000 until December 31, 2010. CARRA is waiting for the order-in-council to be approved. According to agreements between the parties, the RREGOP and PPMP committed to assuming 93% and 7% respectively of the GIP's computer system development cost. The expenses related to this development are expected to be posted to the RREGOP and PPMP at the rate at which CARRA amortizes them as of the date they become operational. At December 31, 2008, CARRA had borrowed \$68 575 000 (\$42 285 000 at December 31, 2007).

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of Management Personnel regarding regular service and additional benefits resulting from the revaluation of years of service acquired at December 31, 2005. This estimate uses contributors' profiles as at December 31, 2005 to determine the value of the obligations resulting from the Plan to be posted in the financial statements. It reveals that, at that date, this value was \$11 027 390 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR MANAGEMENT PERSONNEL AT DECEMBER 31, 2005, PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Yves Slater, FICA, FSA
Director of actuarial Services and Development

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, December 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of Management Personnel regarding years of service transferred from the Teachers Pension Plan and the Civil Service Superannuation Plan using contributors' profiles as at December 31, 2006 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$1 259 457 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN OF MANAGEMENT PERSONNEL AT DECEMBER 31, 2006, PERFORMED FOR YEARS OF SERVICE TRANSFERRED FROM THE CIVIL SERVICE SUPERANNUATION PLAN AND THE TEACHERS PENSION PLAN AND FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, January 7, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan for Management Personnel regarding specific provisions offered senior officials using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$666 823 000. For the actuarial valuation, the Pension Plan for Senior Official designates these specific provisions.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2004, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, February 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan for Management Personnel for supplemental pension plans for senior officials using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. The valuation reveals that, at that date, this value was \$40 768 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN FOR SENIOR OFFICIALS AS AT DECEMBER 31, 2004, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, February 20, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF MANAGEMENT PERSONNEL

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plans of Management Personnel as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 8, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. C-32.1.2)

TEACHERS PENSION PLANS (R.S.Q., c. R-11)

PENSION PLAN OF CERTAIN TEACHERS (R.S.Q., c. R-9.1 and P-32.1)

CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2008

(in thousands of dollars)

	2008		2007	
CONTRIBUTIONS				
Employee contributions, including contributions for past service				
Teachers Pension Plans	80		2 302	
Pension Plan of Certain Teachers	<u>271</u>	351	<u>605</u>	2 907
Contributions of independent employers (excess employer remittances collected)				
Teachers Pension Plans		<u>(18)</u>		<u>18</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		<u>333</u>		<u>2 925</u>
BENEFITS				
Benefits paid				
Pensions				
Teachers Pension Plans (Note 5)	1 226 875		1 233 224	
Pension Plan of Certain Teachers	<u>151 793</u>	1 378 668	<u>153 074</u>	1 386 298
Contribution refunds				
Teachers Pension Plans	1 040		667	
Pension Plan of Certain Teachers	<u></u>	1 040	<u>1</u>	668
Transfers, including interest				
Teachers Pension Plans	2 683		2 882	
Pension Plan of Certain Teachers	<u>389</u>	3 072	<u>730</u>	3 612
Administrative expenses				
Teachers Pension Plans	3 112		3 396	
Pension Plan of Certain Teachers	<u>391</u>	<u>3 503</u>	<u>349</u>	<u>3 745</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		1 386 283		1 394 323

PENSION OBLIGATIONS (Note 6)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 7)**

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the BoardJocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Teachers Pension Plans Pension Plan of Certain Teachers

The following description is given for information purposes only. For more complete information concerning these plans, please see the following:

- *Act respecting the Teachers Pension Plan* (R.S.Q., c. R-11);
- *Act respecting the Pension Plan of Certain Teachers* (R.S.Q., c. R-9.1);
- *Act respecting pension coverage for certain teachers* (R.S.Q., c. P-32.1).

a) General information

These define-benefit pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to:

- teachers appointed or hired by a recognized educational institution prior to July 1, 1973;
- certain categories of teachers who belonged to a religious community.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 65 for men, or age 60 for women. They are also entitled to such benefits if they are age 62 and have 10 years' pensionable service, if they have 33 years' pensionable service under the Teachers Pension Plan (TPP) or 35 years' pensionable service under the Pension Plan of Certain Teachers (PPCT), or if they are age 55 years and have 32 years' pensionable service.

Contributors are entitled to an actuarially reduced pension if they have 22 years' pensionable service and are age 55 years for men, or age 50 for women. Women are also entitled to such a pension if they have 10 years' pensionable service and are age 58.

The pension is calculated by multiplying the average pensionable earnings for the 5 best-paid years by 2% per year of service. For the PPCT, an additional pension equal to the average pensionable earnings multiplied by 1.6% per year of service performed before paying into a pension plan is added to the retirement pension. The pension, including the additional pension, is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability pension

The TPP provides for payment of a disability pension to an employee who has been disabled. It is calculated as a regular pension according to the number of years of pensionable service.

e) Survivor's benefits

In the case of TPP, if a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

e) Survivor's benefits (cont'd)

If a contributor dies while participating in the PPCT and was eligible for the PPCT and an immediate retirement pension or was receiving a retirement pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension to which he/she would have been entitled to receive or received. In the absence of a spouse, the heirs are entitled to receive the difference with interest between the contributions and pensions paid.

In the case of the TPP, if a contributor dies before being eligible for an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

In the case of the PPCT, if a contributor dies before being eligible for an immediate pension, contributions, plus interest, are refunded to the spouse or, failing that, to the heirs.

f) Severance benefits

According to the terms and conditions of the TPP, persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension or may request that the total contributions paid into the plan or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

According to the terms and conditions of the PPCT, persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than 2 years' pensionable service. If they have 10 or more years' pensionable service and are over age 45, they are entitled to a deferred indexed pension. In all other cases, contributors are entitled to choose between the refund of contributions, plus interest, or a deferred indexed pension.

Contributors are eligible for a deferred indexed pension at age 60 or 65, depending on the terms and conditions of each plan.

g) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982 and to service entitling the individual to a pension in addition to the PPCT.

Supplemental Pension Plan for Teachers

The Supplemental Pension Plan for Teachers (C.T. 195706 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the TPP.

It provides for the payment of a disability pension under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the TPP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
(in thousands of dollars)

3. CAPITALIZATION POLICY

For the TPP, the employee and independent employer contributions for the fiscal year were 6.28% of the pensionable earnings that exceed the personal exemption under the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of this same Act and 8.08% of the remaining pensionable earnings. Under section 177 of the *Act respecting the Government and Public Employees Retirement Plan*, these rates are no longer reviewed.

For the PPCT, the employee contribution is 8.19% of the surplus of pensionable earnings over 35% of the maximum pensionable earnings within the meaning of the *Act respecting the Québec Pension Plan*.

Employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The *Act respecting the Teachers Pension Plan* and *Act respecting the Pension Plan of Certain Teachers* do not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. AMOUNTS RECEIVABLE / TRANSFERS - PENSION PLAN OF CERTAIN TEACHERS

Sections 53 and 54 of the *Act respecting the Pension Plan of Certain Teachers*, in force since June 1986, stipulate that all amounts paid into the Caisse de dépôt et placement du Québec under the *Act respecting the Government and Public Employees Retirement Plan* for individuals covered by this Act must be transferred to the Consolidated Revenue Fund. However, benefits paid or payable are deducted from these amounts.

As at December 31, 2008, \$254 000 (\$536 000 as at December 31, 2007) was receivable in relation to this transfer. In keeping with the capitalization policy, this amount will be paid into the Consolidated Revenue Fund.

5. BENEFITS TO CONTRIBUTORS

For fiscal 2008, \$2 213 857 (2007: \$2 292 173) was paid under the Supplemental Pension Plan for Teachers and is included under the item "Pensions".

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions used by the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuations of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. Changes were made to certain assumption to reflect participants' profiles and specific plan provisions. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of accrued TPP benefits at \$13 843 112 000 as at December 31, 2005 and those of the PPCT at \$1 612 986 000 as at December 31, 2006, and estimated these amounts at \$12 664 886 000 and \$1 505 427 000 as at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2008	2007
Teachers Pension Plan		
Opening actuarial present value of accrued pension benefits	13 084 747	13 325 809
Increase		
Actuarial loss		143 093
Change in actuarial assumptions		9 840
Interest	810 520	836 139
Benefits accrued	224	6 640
	810 744	995 712
Decrease		
Benefits paid	1 230 598	1 236 773
Inter-plan transfers for past service	7	1
	1 230 605	1 236 774
Net decrease for the year	419 861	241 062
Closing actuarial present value of accrued pension benefits	12 664 886	13 084 747
Pension Plan of Certain Teachers		
Opening actuarial present value of accrued pension benefits	1 521 839	1 573 788
Increase		
Actuarial loss	41 913	
Corrections to participant data	794	
Interest	96 498	100 328
Benefits accrued	604	1 064
Inter-plan transfers for past service	123	464
	139 932	101 856
Decrease		
Change in actuarial assumptions	4 162	
Benefits paid	152 182	153 805
	156 344	153 805
Decrease for the year	16 412	51 949
Closing actuarial present value of accrued pension benefits	1 505 427	1 521 839
	14 170 313	14 606 586

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Significant economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates		Medium-term rates	
	TPP	PPCT	TPP	PPCT
Inflation	3.00%	3.00%	2.25%	2.25%
Rate of return net of inflation	4.50%	4.50%	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.75%	0.30%	0.35%

Medium-term rates for the PPCT represent the medium-term rates for 2007 to 2016 and, for the TPP, 2006 to 2016, while long-term rates represent rates used as of 2017 for the PPCT and the TPP. The yield-based assumption is determined by presuming that if the pension plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of Government and Public Employees Retirement Plan (RREGOP) participants.

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for this plan, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plan correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial losses or gains.

The cost of accrued benefits is evaluated in accordance with the accumulated benefit method prorated by service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2008	2007
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	13 406 473	13 723 520
Increase		
Contributions recovered	2 933	5 005
Pension costs		
Current service	8 780	10 606
Past service	112 838	96 826
Interest	947 988	962 330
Inter-plan transfers for past service	230	623
	1 072 769	1 075 390
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	1 393 183	1 392 437
Net increase for the year	320 414	317 047
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	13 086 059	13 406 473
Estimated liability recorded as at December 31	12 830 842	13 166 954

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS

PENSION PLAN OF CERTAIN TEACHERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

7. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part of or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$62 606 billion as at March 31, 2008).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

TEACHERS PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Teachers Pension Plans using the contributors' profile as at December 31, 2005 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$13 843 112 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE TEACHERS PENSION PLANS AS AT DECEMBER 31, 2005 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation reflect the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Jean Dessureault, FICA, FSA
Actuary

Québec, December 17, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN OF CERTAIN TEACHERS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of Certain Teachers using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan to be posted to the financial statements. It reveals that, at that date, this value was \$1 612 986 000.

ACTUARIAL OPINION INTEGRAL TO THE VALUATION OF THE PENSION PLAN OF CERTAIN TEACHERS AS AT
DECEMBER 31, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Interim Head of Actuarial Services

Alain Jacob, FICA, FSA
Actuary

Québec, February 20, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**TEACHERS PENSION PLANS
PENSION PLAN OF CERTAIN TEACHERS****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Teachers Pension Plans and the Pension Plan of Certain Teachers for the year ended December 31, 2008. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statement is free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of these plans for the year ended December 31, 2008 in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
CIVIL SERVICE SUPERANNUATION PLANS
(R.S.Q., c. R-12)
CONTRIBUTIONS AND BENEFITS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service (excess employer remittances collected)	(705)	1 659
Contributions of independent employers	<u>164</u>	<u>641</u>
AMOUNTS (TAKEN FROM) DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>(541)</u>	<u>2 300</u>
BENEFITS		
Benefits paid		
Pensions (Note 4)	475 517	470 934
Contribution refunds	265	83
Transfers, including interest	1 279	707
Administrative expenses	<u>1 713</u>	<u>1 450</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>478 774</u>	<u>473 174</u>

PENSION OBLIGATIONS (Note 5)

LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 6)

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Civil Service Superannuation Plan

The following description of the Civil Service Superannuation Plan (CSSP) is given for information purposes only. For more complete information concerning this plan, please consult the *Act respecting the Civil Service Superannuation Plan* (R.S.Q., c. R-12).

a) General information

The CSSP is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) offered to civil service employees appointed or hired prior to July 1, 1973.

b) Funding

Pension benefits under these plans are funded by contributors and independent employers according to contribution rates set by law, and by the Government, which assumes the remaining pension obligations.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 65. They are also entitled to such benefits if they are age 62 for men, or 60 for women, and have 10 years' pensionable service, if they have 35 years' pensionable service, if they are age 55 years and have 32 years' pensionable service, or if they are 60 and their age and years of pensionable service total 90.

They are entitled to an actuarially reduced pension at age 55 for men, or 50 for women, if they have accumulated 22 years' pensionable service, at age 60, or under age 60 if their age and years of pensionable service total 90.

The pension is obtained by multiplying the average pensionable earnings of the 5 best-paid years by 2% per year of service. The pension is reduced as of age 65 in order to coordinate with that of the Québec Pension Plan.

d) Disability pension

The CSSP provides for payment of a disability pension to an employee who has been disabled. It is calculated as a regular pension according to the number of years of pensionable service accumulated toward the plan.

e) Survivor's benefits

If a contributor or a pensioner dies, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no surviving spouse or pension paid to children, contributions, without interest, are refunded to the heirs, minus pension amounts paid.

f) Severance benefits

Persons who cease to contribute to the CSSP before being eligible for an immediate pension are entitled to the refund of contributions if they have fewer than 10 years' pensionable service. If they have over 10 years' pensionable service, they are entitled to a deferred indexed pension at age 65 for men, or 60 for women, or may request that the total contributions paid into the CSSP or the actuarial value of the deferred indexed pension, whichever is higher, be transferred to a locked-in retirement account (LIRA).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

g) Indexation of benefits

CSSP pension benefits are fully indexed to the cost of living increase for that portion of the pension corresponding to vested service prior to July 1, 1982, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1982.

Supplemental Pension Plan for Civil Servants

The Supplemental Pension Plan for Civil Servants (C.T. 195705 of December 19, 2000) determines the minimum pension when the latter is higher than the pension calculated under the CSSP.

It provides for the payment of a disability pension, under certain conditions, when a contributor is disabled and does not already receive such a pension in keeping with the CSSP.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the CSSP, the employee and independent employer contributions for the fiscal year were 5.45% of the pensionable portion of the earnings that exceed the personal exemption under the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9), to the maximum pensionable earnings within the meaning of this same Act and 7.25% of the remaining pensionable earnings. Under section 177 of the *Act respecting the Government and Public Employees Retirement Plan*, these rates are no longer reviewed.

The employee and independent employer contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the CSSP. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. BENEFITS TO CONTRIBUTORS

For fiscal 2008, \$154 681 (2007: \$175 628) was paid under the Supplemental Pension Plan for Civil Servants and is included under the item "Pension".

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions used by the CSSP administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2005 and tabled with the retirement committee on October 15, 2007. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$5 184 258 000 as at December 31, 2005 and estimated it at \$4 716 223 000 as at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

Change in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	4 893 234	5 073 257
Increase		
Interest	302 476	312 869
Benefits accrued	(2 426)	5 702
	300 050	318 571
Decrease		
Actuarial gain		11 698
Change in actuarial assumptions		15 172
Benefits paid	477 061	471 724
	477 061	498 594
Net decrease for the year	177 011	180 023
Closing actuarial present value of accrued pension benefits	4 716 223	4 893 234

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.30%

Medium-term rates represent the average rates for the period 2006 to 2016, while long-term rates represent rates used as of 2017. The yield-related assumption is determined by presuming that, if the CSSP were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the RREGOP.

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the CSSP in the Consolidated Revenue Fund.

The pension costs for the CSSP correspond to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial losses or gains.

The cost of accrued benefits is evaluated according to the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)**Change in the liability recorded in the Government's financial statements**

	2008	2007
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	4 683 634	4 796 666
Increase		
Contributions recovered	1 449	2 184
Pension costs		
Current service	4 698	6 513
Past service	20 504	20 207
Interest	317 855	327 365
Inter-plans transfer for past service	308	
	344 506	356 577
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	474 745	469 609
Net decrease for the year	130 239	113 032
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	4 553 395	4 683 634
Estimated liability recorded as at December 31	4 440 232	4 587 129

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (\$62 606 billion as at March 31, 2008).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**CIVIL SERVICE SUPERANNUATION PLANS****ACTUARIAL VALUATION**

The Commission's actuaries performed an actuarial valuation of the Civil Service Superannuation Plans using the contributors' profile as at December 31, 2005 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$5 184 258 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE CIVIL SERVICE SUPERANNUATION PLANS AS AT DECEMBER 31, 2005 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF THE OBLIGATIONS RESULTING FROM THE PLAN RECORDED IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Interim Head of Actuarial Services

Québec, December 17, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CIVIL SERVICE SUPERANNUATION PLANS

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the Civil Service Superannuation Plans for the year ended December 31, 2008. This financial statement is the responsibility CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statement is free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of the plans for the year ended December 31, 2008 in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. C-32.1.2)

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS**PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS****CONTRIBUTIONS AND BENEFITS**

for the year ended December 31, 2008

(in thousands of dollars)

	2008		2007
CONTRIBUTIONS			
Employee contributions, including contributions for past service			
Pension plans offered to judges of the Québec Court and certain municipal courts	2 743		2 727
Supplemental pension plans for judges of the Court of Québec and certain municipal courts	2 034	4 777	1 654
4 381			
Municipalities' contributions, including contributions for past service			
Pension plans offered to judges of the Québec Court and certain municipal courts	171		96
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts	253	424	195
291			
Transfers, including interest			
Pension plans offered to judges of the Québec Court and certain municipal courts		858	116
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND		6 059	4 788
BENEFITS			
Benefits paid			
Pensions			
Pension plans offered to judges of the Québec Court and certain municipal courts	17 976		16 358
Supplemental pension plans offered to judges of the Québec Court and certain municipal courts (Note 6)	9 369		5 181
Pension Plan of the Public Protector and his/her Deputy Public Protectors	284	27 629	284
21 823			
Administrative expenses			
Pension plans offered to judges of the Québec Court and certain municipal courts		96	78
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES		27 725	21 901

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS** (Note 5)

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the BoardJocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS
 PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2008
 (in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act

The following description is given for information purposes only. For more complete information concerning these plans, please consult Parts V.1 to VI.3 of the *Courts of Justice Act* (R.S.Q., c. T-16) for the pension plans and Orders-in-Council 326-93 and 695-2001 for the supplemental pension plans.

a) General information

These defined-benefit pension plans and supplemental define-benefit pension plans are administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to judges of the Court of Québec, including those of the Québec City and Laval municipal courts.

In keeping with section 25 of *Act to amend the Securities Act* (S.Q. 1971, c. 77), the Pension plan of certain judges appointed before May 30, 1978 also applies to commissioners of the Commission des valeurs mobilières du Québec who were in office in July 7, 1971.

b) Funding

Pension plan of the judges of the Court of Québec and certain municipal courts (PPJCQM) benefits are funded by participants and municipalities according to the contribution rate set by law. The Government assumes the balance of pension obligations.

For the other plans, benefits are entirely funded by the Government.

c) Retirement benefits

PPJCQM contributors are entitled to a retirement pension without an actuarial reduction at age 65 or when the sum of their age and years of service total 80. They are entitled to a reduced pension when they have accumulated 21.7 years of service. According to the provisions of the PPCJQM, the pension is obtained by multiplying the average pensionable earnings for the three best-paid years by 1.5% per year of service. Contributors are entitled to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 3% per year of service over the retirement pension calculated under the basic plan. The sum of PPJCQM benefits and supplemental pension plan benefits cannot exceed 65% of average pensionable earnings or be lower than 55% thereof if their age and years of service total 80.

Contributors to the Pension plan of certain judges appointed before January 1, 2001 are entitled to a retirement pension without the actuarial reduction at age 65 or to a reduced pension when they have 25 years of service. The retirement pension is calculated by multiplying the average pensionable earnings for the three best-paid years by 2.8% per year of service for years of service prior to December 31, 1991 and by 1.5% per year of service thereafter. Contributors are entitled to a supplemental pension which equals the surplus of the amount obtained by multiplying total average pensionable earnings for the three best-paid years by 2.8% per year of service over the retirement pension calculated under the basic plan.

PPJCQM and PPCJAJ contributors are entitled to a retirement pension with an actuarial reduction at age 55 if they have at least 5 years of service.

According to the provisions of the Pension plan of certain judges of the Court of Québec appointed before May 30, 1978, the pension constitutes a set amount.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the judges of the Court of Québec and certain municipal courts

Pension plan of certain judges of the Court of Québec appointed before January 1, 2001

Pension plan of certain judges of the Court of Québec appointed before May 30, 1978

Supplemental pension plans for judges established under section 122 of the Courts of Justice Act (cont'd)

d) Disability benefits

These pension plans may provide for payment of a disability benefit to an employee who has been totally and permanently disabled. This benefit is calculated according to the same terms and conditions as a regular pension.

e) Survivor's benefits

If a PPJCQM or PPCBJB contributor or pensioner dies, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% or 66 2/3% if the contributor had chosen a reduced pension. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the surviving spouse or, failing that, to the heirs.

If a contributor dies while receiving a Pension plan of the judges of the Court of Québec and certain municipal courts pension, the surviving spouse is entitled to a pension in the amount of 50% of the pension that the person received

The same conditions apply to supplemental benefits.

f) Severance benefits

Persons who cease to contribute to the PPJCQM or PPCBJB before being eligible for an immediate pension are entitled to a deferred indexed pension at age 65 if they have more than two years' pensionable service; otherwise, they are entitled to the refund of contributions, plus interest. The same conditions apply to supplemental benefits.

g) Indexation of benefits

PPJCQM and PPCBJB pension benefits and supplemental benefits are fully indexed to the cost of living increase for the portion of the pension corresponding to vested service prior to July 1, 1990, and are partially indexed for that portion of the pension corresponding to vested service after June 30, 1990. PPCJBM pension benefits are fully indexed if contributors opt for such indexation by investing the required amounts.

Pension plan of the Public Protector and his/her Deputy Public Protectors

The following description is given for information purposes only. For more complete information concerning these plans, please consult the *Public Protector Act* (R.S.Q., c. P-32) regarding the pension plan of the Public Protector and his/her Deputy Public Protectors.

a) General information

This pension plan is administered by CARRA. It is a defined-benefit pension plan

b) Funding

Pension benefits under this plan are funded entirely by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the Public Protector and his/her assistant (cont'd)

c) Retirement benefits

Benefits under the pension plan of the Public Protector and his/her assistant are equal to 25% of what the contributor was earning at retirement per period of 5 years' pensionable service, without exceeding 75%. In the event of death, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received. The plan also provides for payment of a disability pension to an employee who has been disabled. Pension benefits are not indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management de la CARRA to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

For the fiscal year, the employee contribution to the PPJCQM equals 7% of pensionable earnings. The PPCBJB has been non-contributory for participants since January 1, 1990. The municipalities paid PPJCQM contributions corresponding to 29.63% of the payroll of the judges in question minus the judges' contributions (10.81% for the basic plan and 18.82% for supplementary benefits). They pay PPCJAJ contributions corresponding to 21.96% of the payroll of the judges in question (8.60% for the basic plan and 13.36% for supplementary benefits).

The Pension plan of the Public Protectors and his/her Deputy Public Protectors is non-contributory.

Employee and municipal contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

4. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions used by the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan prepared using data as at December 31, 2002 and tabled with the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits of the pension plans of judges of the Court of Québec and certain municipal courts at \$221 211 000 and that of supplemental pension plans at \$97 599 000 at December 31, 2004 and for the Pension plan of the Public Protector and his/her Deputy Public Protectors at \$3 681 000 at December 31, 2008. They estimated the actuarial value of the defined benefits of the pension plans of judges of the Court of Québec and certain municipal courts at \$241 781 000 and that of the supplemental pension plans at \$228 381 000 at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)

	2008	2007
PPJCQM		
Opening actuarial present value of accrued pension benefits	236 148	231 421
Increase		
Interest	15 881	15 148
Benefits accrued	6 013	5 705
Inter-plan transfers for past service	1 715	232
	23 609	21 085
Decrease		
Benefits paid	17 976	16 358
Net increase for the year	5 633	4 727
Closing actuarial present value of accrued pension benefits	241 781	236 148
RPSJCQ		
Opening actuarial present value of accrued pension benefits	210 755	117 025
Increase		
Change to plans		14 469
Interest	14 645	8 058
Benefits accrued	12 350	76 384
	26 995	98 911
Decrease		
Benefits paid	9 369	5 181
Net increase for the year	17 626	93 730
Closing actuarial present value of accrued pension benefits	228 381	210 755
PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER ASSISTANT		
Opening actuarial present value of accrued pension benefits	3 510	3 203
Increase		
Actuarial loss	7	8
Change in actuarial assumptions		174
Interest	226	212
Benefits accrued	222	197
	455	591
Decrease		
Benefits paid	284	284
Net increase for the year	171	307
Closing actuarial present value of accrued pension benefits	3 681	3 510
	473 843	450 413

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)
Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50%	2.60%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	1.00%	0.40%

Medium-term rates represent the average rates for the period 2005 to 2013, while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if the plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping with Canadian generally accepted public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plans corresponds to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial losses or gains.

The cost of accrued benefits is evaluated according to the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS

PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

Change in the liability recorded in the Government's financial statements

	2008	2007
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	418 512	329 755
Increase		
Contributions recovered	3 476	3 279
Pension costs		
Changes to PPJQCMC		20 000
Current service	21 484	64 796
Past service	(978)	(978)
Interest	26 261	21 584
Interplan transfers for past service	116	798
	50 359	109 479
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	21 516	20 722
Net increase	28 843	88 757
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	447 355	418 512
Estimated liability recorded as at December 31	460 575	434 485

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2008: \$62 606 billion).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the fair value of the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

6. COMPARATIVE FIGURES

Some 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension plans of the judges of the Québec Court and certain municipal courts established under the Courts of Justice Act (R.S.Q., c. T-16) using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$221 211 000. For the actuarial valuation, the Pension plan of judges of the Québec court and certain municipal courts designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS AS AT DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 13, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Supplemental pension plans for the judges of the Québec Court and certain municipal courts established under section 122 of the Courts of Justice Act using contributors' profiles as at December 31, 2004 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$97 599 000. For the actuarial valuation, the Pension plan of judges of the Québec court and certain municipal courts designates all plans.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE SUPPLEMENTAL PENSION PLAN OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS AS AT DECEMBER 31, 2004, PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 13, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Public Protector and his/her Deputy Public Protectors using contributors' profiles as at December 31, 2008 to determine the value of the obligations resulting from the Plans to be posted to the financial statements. It reveals that, at that date, this value was \$3 681 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT OF THE PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS AS AT DECEMBER 31, 2008 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 3, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF THE JUDGES OF THE QUEBEC COURT AND CERTAIN MUNICIPAL COURTS
PENSION PLAN OF THE PUBLIC PROTECTOR AND HIS/HER DEPUTY PUBLIC PROTECTORS
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans mentioned in Note 1 for the year ended December 31, 2008. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statement is free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008, and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA, Auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)		
Employee contributions fund	35 278	20 737
Employer contributions fund		87
	<u>35 278</u>	<u>20 824</u>
Accounts receivable		
Owed by the Gouvernement du Québec		
Contribution for service after December 31, 2006 (Note 5)	85 691	41 826
Current account	453	
Employee contributions	3 122	1 816
Employer contributions	15	21
Amounts receivable from beneficiaries	84	60
Amounts receivable - transfer (Note 6)	655	16 833
	<u>90 020</u>	<u>18 730</u>
	<u>125 298</u>	<u>35 362</u>
LIABILITIES		
Contributions refunds and pensions payable	409	1 144
Surplus employee contributions to be refund	69	70
Administrative expenses payable	199	737
Amounts payable to Consolidated Revenue Fund		15 736
	<u>677</u>	<u>17 687</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 7 and 8)	<u>124 621</u>	<u>63 693</u>

ANCILLARY BENEFITS (Note 11)

LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 9)

The notes are an integral part of these financial statements.

For the pension committee,

Luc Fournier
André Fortin

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC****STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2008

(in thousands of dollars)

	2008	2007
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	26 230	23 946
Gouvernement du Québec contribution for service after December 31, 2006 (Note 5)	45 312	42 058
Contributions of independent employers	130	124
Transfers, including interest (Note 6)	13 068	18 697
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 10)	1 243	414
Interest income	50	57
	<u>86 033</u>	<u>85 296</u>
Amounts received from and receivable from the Gouvernement du Québec to pay benefits payable from the Consolidated Revenue Fund	<u>178 930</u>	<u>176 123</u>
	<u><u>264 963</u></u>	<u><u>261 419</u></u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	176 804	170 079
Contribution refunds	236	81
Transfers, including interest	2 148	5 997
Administrative expenses	836	1 129
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 10)	<u>10 148</u>	<u>267</u>
	<u>190 172</u>	<u>177 553</u>
Amounts deposited in and to be deposited in the Consolidated Revenue Fund		
Employee contributions of officers who opted for maintaining payment of their contributions to this fund	1 381	1 302
Other contributions and transfers	<u>12 482</u>	<u>18 871</u>
	<u>13 863</u>	<u>20 173</u>
	<u>204 035</u>	<u>197 726</u>
NET INCREASE FOR THE YEAR	60 928	63 693
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>63 693</u>	<u></u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u><u>124 621</u></u>	<u><u>264 963</u></u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE SPMSQ

Superannuation plan for the members of the Sûreté du Québec (SPMSQ)

The description of the SPMSQ is given for information purposes only. For more complete information concerning this plan, see the June 2007 agreement between the Gouvernement du Québec and the Association des policières et policiers provinciaux du Québec (APPQ) whose provisions are in effect for the period January 1, 2007 – March 31, 2010.

a) General information

The SPMSQ is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA), with the exception of the provisions for ancillary benefits administered by the APPQ, and offered to eligible members of the Sûreté du Québec.

b) Funding

The benefits resulting from years of service prior to January 1, 2007 are financed by the Government and by members whose contributions were deposited in the Consolidated Revenue Fund.

The benefits resulting from years of services prior to December 31, 2006 are financed 1/3 by participants and 2/3 by the Government and independent employers. However, the benefits resulting from years of service prior to December 31, 2006 by officer who opted to maintain their contributions in the Consolidated Revenue Fund are financed in full by the Government.

Until March 31, 2010, the costs related to SPMSQ administration are paid by the Government.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 25 years' pensionable service or if their age and years of pensionable service total 75.

They are entitled to an actuarially reduced pension if they have 20 years' pensionable service.

Participants must retire when they turn 65. They stop contributing when they have 38 years of service credited with the SPMSQ.

The pension is equal to the sum of the following:

- for past service credited prior to January 1, 1992, the amount obtained by multiplying the average pensionable earnings for the 4 best-paid years by 2.3% per year of service; and
- for service credited after December 31, 1991, the amount obtained by multiplying the average pensionable earnings for the three best-paid years by 2% per year of service, to which is added, until age 65, an additional amount equal to 0.3% per year of service.

The pension for past service cumulated prior to January 1, 1992, is reduced beginning at age 65 by the amount obtained by multiplying the average pensionable earnings for the 4 best-paid years to a maximum of eligible earnings within the meaning of the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9) for these 4 years by 0.7% per year of service.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE SPMSQ (cont'd)

Superannuation plan for the members of the Sûreté du Québec (SPMSQ) (cont'd)

d) Survivor's benefits

If a person dies while off duty and had contributed to the SPMSQ for at least 10 years, the surviving spouse is entitled to a pension equal to 50%, or 60% if the person chose to receive a reduced pension, of the pension the deceased was receiving or would have received, excluding the additional amount. If the person did not have 10 years of service, the contributions are reimbursed with interest to the surviving spouse or, if there is no spouse, to the heirs.

Each dependent child is eligible for a pension equal to 10% of this pension, excluding ancillary benefits, if a pension is paid to the spouse, without the total pension awarded to all dependent children exceeding 40% of the pension the deceased was receiving or would have received. If no pension is paid to the spouse, the dependent children share, in equal parts, a pension equal to that which the surviving spouse would have received, plus 10% per child, beginning with the second child, without the total pension awarded to all the children exceeding 80% of the pension the deceased was receiving or would have received.

If a person dies while in office, benefits are payable when payment of the special pension stops.

e) Severance benefits

Persons who cease to contribute to the SPMSQ before being eligible for an immediate pension are entitled to the refund of contributions, plus interest, if they have fewer than 2 years' service.

Otherwise, contributors may choose between the partial or complete refund of contributions, plus interest, and a deferred indexed pension, depending on their age and years of service when they cease to contribute to the SPMSQ.

The deferred pension plan is payable without an actuarial reduction once the person is 60 or over or with an actuarial reduction the date the person attains 32 years of service, whichever comes first.

f) Indexation of benefits

Pensioners who became members of the Sûreté du Québec prior to April 1, 1987, receive pensions which are fully indexed to the cost of living increase for pensionable service credited prior to January 1, 1992, and up to 20 years' pensionable service after that date. In all other cases, pensions are partially indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of these individual funds are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. The share in these gains or losses is added to the cost of participations deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. CAPITALIZATION POLICY

The employee contributions for the fiscal year were 6.2% of the pensionable portion of the salary that exceeds the personal exemption under the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of this same Act and 8% of the remaining pensionable earnings. According to the terms of the agreement, as of June 1, 2009, these contribution rates may be reduced for participants with 30 years of service.

The Government contribution for the fiscal year is 12.71% of the pensionable earnings of members of opted to pay their contributions into the members' fund entrusted to the CDP for current service. This contribution rate was established in keeping with the actuarial valuation carried out using data as at December 31, 2003 and produced to meet Government accounting needs.

The independent employer contribution is established using the most recent actuarial valuation produced for plan financial statement purposes.

In keeping with the agreement, the pension committee mandated CARRA actuaries to perform the first actuarial evaluation of the SPMSQ for benefits paid by members to establish the contribution rate of plan participants. This contribution rate was established based on the actuarial evaluation performed using data defined at December 31, 2006 using the accumulated benefit method with wage projections, best actuarial assumptions and a provision for unfavourable variance. The employee contribution required of members will vary depending on the provisioning parameters used by the pension committee.

The Government is not obliged to contribute to the SPMSQ for benefits resulting from years of service prior to January 1, 2007 or years of service after December 31, 2006 for officer who opted for maintaining payment of their contributions to the Consolidated Revenue Fund. It must, however, pay all of these benefits when they become payable using amounts from the Consolidated Revenue Fund. For years of service after December 31, 2006, based on actuarial valuations requested by the Minister of Finance, the latter determines the amounts that can, every year but at least every three years, be capitalized at the time prescribed to reflect the Government's commitments under the SPMSQ.

Employee and employer contributions are deposited respectively in the employee contributions fund and employer contributions fund held by the CDP.

The amounts needed to pay benefits for service after December 31, 2006, with the exception of ancillary benefits, are taken from the CDP's employee contributions fund (33.3%) and employer contributions fund (66.7%). When the CDP's employer contributions fund is empty, the shortfall for paying the benefits covered by the Government is taken from the Consolidated Revenue Fund.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**a) Investments**

	2008		2007
	Member contributions fund	Employer contributions funds	Total
			Total
Participation deposits in individual funds			
– at fair value (cost: 2008 \$34 094; – 2007: \$20 696)*	32 634		32 634
			18 884
Demand deposits in the General Fund	2 508		2 508
			1 898
Revenue receivable from individual funds	136		136
			42
	35 278		35 278
			20 824
* Cost of units			41 206
Cumulative share of gains (losses) realized but not yet broken down by individual portfolio			19 148
			(7 112)
			1 548
			34 094
			34 094

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPS (cont'd)***Effect on the results of the special SPMSQ fund*

For the fiscal year ended December 31, 2008, the share in expenses attributed to special PSPMSQ fund is \$302 000 for an investment in ABCPs, via the CDP, of \$963 000. The loss comprises:

- the share of the \$282 000 (\$140 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$1 000 (\$20 000 in 2007);
- the share of the \$19 000 (\$4 000 in 2007) realized losses on these securities minus gains realized upon sale.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the special SPMSQ fund.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special SPMSQ fund is \$511 000.

The share in unrealized losses on ABCPs attributed to the special RREGOP fund of \$282 000 presented above includes \$19 000 for guarantees associated with ABCPs (\$29 000 in 2007).

5. AMOUNT OWED BY THE GOUVERNEMENT DU QUÉBEC

Based on legislative provisions and the terms of the agreement, the Gouvernement du Québec contribution to the SPMSQ for service after December 31, 2006 is established based on an actuarial valuation requested by the Minister of Finance. The Government designated actuarial valuation produced for government accounting purposes based on data defined on December 31, 2003 to determine its SPMSQ contribution. The contribution receivable will be paid into the employer contribution fund no later than December 31, 2009.

Change in the amount owed by the Gouvernement du Québec

	2008	2007
Opening balance	41 826	
Government contribution	45 312	42 058
Payments received for benefits and administrative costs paid by the Government	(1 447)	(232)
Closing balance	<u>85 691</u>	<u>41 826</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. TRANSFER OF MUNICIPAL POLICE OFFICERS

Following the reform of the *Act concerning the organization of police services* (S.Q., 2001, c. 19), the Government and the APPQ signed an agreement on the pension benefits of police officers that were integrated into the Sûreté du Québec. Several municipalities chose to abolish their police corps to use Sûreté du Québec services. Many municipal police officers integrated into the Sûreté du Québec opted to have their past years of service recognized under the terms of the agreement.

7. NET ASSETS AVAILABLE FOR BENEFITS

	2008	2007
Members	38 472	22 655
Employers	86 149	41 038
	<u>124 621</u>	<u>63 693</u>

Net assets available for benefit service concerns solely service after December 31, 2006, with the exception of service by officer who opted to maintain payment of their contributions to the Consolidated Revenue Fund. The benefits resulting from these years of service are financed by participants (1/3) and by the Government and independent employers (2/3).

Elements of change in net assets available for benefit service

	2008		2007
	Members	Government and independent employers	Total
Employee contributions	24 472	20	24 492
Government contributions		45 312	45 312
Independent employer contributions		130	130
Transfers, including interest	333	656	989
Investment and interest income	(8 902)	1	(8 901)
Benefits paid to participants	(86)	(172)	(258)
Administrative expenses		(836)	(836)
Net increase for the year	<u>15 817</u>	<u>45 111</u>	<u>60 928</u>
			<u>(1 011)</u>

8. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined according to the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan (RREGOP) as at December 31, 2005 and tabled before the retirement committee on October 15, 2007. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$3 234 785 000 as at December 31, 2006 and estimated it at \$3 476 726 000 as at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

8. PENSION OBLIGATIONS (cont'd)**Change in pension obligations**

	2008	2007
Opening actuarial present value of accrued pension benefits	3 397 432	3 269 161
Increase		
Corrections to participant data	2 441	
Actuarial loss	14 258	
Interest	214 715	216 092
Benefits accrued	78 622	69 639
Municipal police officer transfers	13 055	18 697
	323 091	304 428
Decrease		
Change in actuarial assumptions	52 177	
Change in SPMSQ	12 432	
Benefits paid	179 188	176 157
	243 797	176 157
Net increase for the year	79 294	128 271
Closing actuarial present value of accrued pension benefits	3 476 726	3 397 432
Breakdown of benefit-related obligations		
Members	51 461	22 547
Employers		
Service after December 31, 2006	93 082	45 094
Service prior to December 31, 2006	3 332 183	3 329 791
	3 476 726	3 397 432

The portion related to service prior to December 31, 2006 includes that applicable to officers who opted to maintain payment of their contributions into the Consolidated Revenue Fund.

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.45%

Medium-term rates represent the average rates for the period 2007 to 2016 while long-term rates represent the rates used as of 2017. The yield-related assumption is determined by presuming that, if the SPMSQ were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

9. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

The Government posts to liabilities in the financial statements an amount established based on the value of benefits promised for which it is responsible, in keeping Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid to SPMSQ. To this amount are added the amounts deposited for the SPMSQ in the Consolidated Revenue Fund.

For the SPMSQ, the liability posted to Government retirement at March 31, 2008 totalled \$3 217 690 000 (March 31, 2007: \$3 123 588 000) and was estimated at \$3 284 243 000 at December 31, 2008 (December 31, 2007: \$3 179 132 000).

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the CDP to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2008: \$62 606 billion).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

10. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008		2007
	Employee contributions fund	Employer contributions fund	Total
Net investment income from individual funds	1 197		1 197
Interest on demand deposits in the General Fund	45	1	46
	<u>1 242</u>	<u>1</u>	<u>1 243</u>
Change in fair value			
Losses from the sale of investments	(1 840)		(1 840)
Share in (losses) gains realized in the specialized portfolios	(8 660)		(8 660)
Unrealized gains (losses)	352		352
	<u>(10 148)</u>		<u>(10 148)</u>
			<u>(267)</u>

11. ANCILLARY BENEFITS

Chapter V of the SPMSQ agreement provides for the acquisition of optional ancillary benefits. To take advantage of this chapter, a member must apply to the APPQ, which is responsible for administering the provisions related to these benefits.

The ancillary benefits are established based on the amount resulting from the optional contributions paid, cumulated with interest, minus administrative costs and amounts attributed to the spouse due to sharing or termination of rights.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

11. ANCILLARY BENEFITS (cont'd)

The following is the summary of the audited financial statements of the APPQ members' flexible plan at December 31:

Balance sheet

	2008	2007
Assets	1 788	668
Liabilities	(12)	(8)
Members' net assets	<u>1 776</u>	<u>660</u>

Statement of income

Contributions	1 458	670
Investment income	37	
Reimbursement of contributions	(14)	
Transfer to CARRA	(5)	
Change in fair value of investments	(345)	(2)
Administrative expenses	<u>(15)</u>	<u>(8)</u>

Net increase for fiscal year

<u>1 116</u>	<u>660</u>

The flexible plan's net assets are reserved for APPQ members who contributed to this plan and are used to pay the benefits to which retired members are entitled under SPMSQ provisions and regulations.

During the year, \$4 921 was transferred to CARRA for these ancillary benefits. This amount is included under "Transfers".

12. CONTINGENCIES

A contributor filed a grievance regarding the average pensionable earnings used by CARRA to calculate the pension benefit amount. CARRA is unable to determine the chances of the contributor's winning the case and, if so, the resulting financial impact.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Superannuation Plan for the Members of the Sûreté du Québec using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$3 234 785 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC AT DECEMBER 31, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Interim Head of Actuarial Services

Jean Dessureault, FICA, FSA
Actuary

Québec, December 12, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SUPERANNUATION PLAN FOR THE MEMBERS OF THE SÛRETÉ DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Superannuation Plan for the Members of the Sûreté du Québec as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financials statements present fairly, in all material respects, the final position of this plan as for the year ended December 31, 2008 and the change in this position for the year then ended in accordance with the Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES
(R.S.Q., c. R-9.2)
CONTRIBUTIONS AND BENEFITS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
CONTRIBUTIONS		
Employee contributions, including contributions for past service	4 383	4 338
Transfers, including interest	<u>436</u>	<u>996</u>
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u><u>4 819</u></u>	<u><u>5 334</u></u>
BENEFITS		
Benefits paid		
Pensions	35 348	32 819
Contribution refunds and transfers, including interest	922	467
Administrative expenses	<u>289</u>	<u>364</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND AND ADMINISTRATIVE EXPENSES	<u><u>36 559</u></u>	<u><u>33 650</u></u>

GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (Note 4)

PENSION OBLIGATIONS (Note 5)

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PPPOCS

The description of the Pension Plan for Peace Officers in Correctional Services (PPPOCS) is given for information purposes only. For more complete information concerning this plan, see the *Act respecting the Pension Plan for Peace Officers in Correctional Services* (R.S.Q., c. R-9.2).

a) General information

The PPPOCS is a defined-benefit pension administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to members of the Syndicat des agents de la paix en services correctionnels du Québec, to intermediate officers represented by the Fraternité des cadres intermédiaires des agents de la paix de la fonction publique or the Association des administrateurs des établissements de détention du Québec and to certain categories of employees at the Institut Pinel.

b) Funding

Benefits are funded in the following proportions: contributors - 54% and Government - 46%, with the exception of additional temporary life annuities resulting from the revaluation of certain years of service, which are funded entirely by contributors.

PPPOCS administrative expenses are assumed by the Government.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 32 years' pensionable service, or at age 50 if they have 30 years' pensionable service.

They are entitled to an actuarially reduced pension if they have 25 years' pensionable service.

The pension is calculated by multiplying the average pensionable earnings for the 5 best-paid years by 2% per year of service credited after December 31, 1991, plus, until age 65, an amount equal to 0.1875% of the average salary per year of service. For the years of service accumulated prior to December 31, 1991, the annual acquisition rate is 2.1875%. The pension is reduced beginning at the age of 65 in order to coordinate it with that of the Québec Pension Plan. For those having contributed to the PPPOCS at some point between 1988 and 1991, additional temporary life annuities payable until age 65 can be added to the pension. For those having contributed to the Plan at some point between 1995 and 2000, additional temporary life annuities payable until age 65 can be added to the pension.

d) Survivor's benefits

If a person dies while contributing to the PPPOCS and was eligible for an immediate pension or was receiving a retirement pension, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received, or to 60% if the contributor had chosen a pension reduced by 2%. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension. If there is no spouse and no pension paid to children, the contributions, plus interest, minus any benefits paid are refunded to the heirs.

If a contributor dies before being eligible for a pension, contributions, plus interest, are refunded to the surviving spouse or, failing that, to the heirs.

e) Severance benefits

Persons who cease to contribute to the PPPOCS before being eligible for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than two years' pensionable service. Otherwise, they are entitled to a deferred indexed pension payable at age 65.

f) Indexation of benefits

PPPOCS pension benefits are partially indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

In keeping with section 126 of the Act respecting the Pension Plan of Peace Officers in Correctional Services, CARRA actuaries must conduct an actuarial valuation of the PPPOCS every three years. The goal of this valuation is to determine the employee contribution rate based on the benefits to be paid out and the value of the fund they would have set up had they capitalized their share. This valuation is based on assumptions established by CARRA actuaries and on the attained-age actuarial cost method, net assets.

The employee contribution for the fiscal year is 4% calculated on the pensionable earnings exceeding the lesser of the following amounts: 25% of pensionable earnings or 25% of the maximum pensionable earnings under the *Act respecting the Quebec Pension Plan* (R.S.Q., c. R-9). This contribution rate was established based on the actuarial valuation conducted using data as at December 31, 1997 and agreements between the parties since its publication in April 2000.

Between January 1, 2000 and December 31, 2005, an additional employee contribution of 3% was deducted to constitute a fund for financing additional temporary life annuities. The amounts paid generate annually-compounded interest according to the rate of return of the employee contributions fund of the Government and Public Employees Retirement Plan (RREGOP) at the Caisse de dépôt et placement du Québec. This rate is determined according to the cost exposure.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act does not oblige the Government to contribute to the PPPOCS. However, the Government's commitments to financing the PPPOCS are disclosed in Note 4. They are calculated as the fund the parties would have created, had their contributions, established according to the above-mentioned actuarial valuation, been deposited in a pension fund.

The amounts required to pay all benefits are taken from the Consolidated Revenue Fund.

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS

Liability recorded in the Government's financial statements

Since the Government has not created a pension fund for this shared-cost plan and because the employee contributions are deposited in the Consolidated Revenue Fund, it records, as a liability in the financial statements, the following amounts:

- the value of the fund that the contributors would have set up had their contributions been deposited in a pension fund that generates the same rates of return as the Government and Public Employees Retirement Plan (RREGOP) entrusted to the Caisse de dépôt et placement du Québec and determine according to cost value, and
- an amount established based on the value of benefits for which it is responsible, i.e. 46% of total benefits, in keeping with Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid.

PPPOCS pension costs correspond to the amount of the cost of accrued benefits, changes made to the plan during the year and amortization of adjustments related to estimates resulting from actuarial losses or gains.

The pension cost is evaluated in accordance with the projected benefit method prorated by service and the most probable assumptions determined by the Government.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (cont'd)

Change in the liability recorded in the Government's financial statements

	2008	2007
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	769 781	720 826
Increase		
Contributions recovered	5 336	5 351
Pension costs		
Current service	9 343	8 946
Past service	604	604
Interest	83 598	65 366
Inter-plan transfers for past service	796	1 113
	99 677	81 380
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	34 351	32 425
Net increase for the year	65 326	48 955
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	835 107	769 781
Estimated liability recorded as at December 31	778 964	816 988

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part of or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2008: \$62 606 billion).

Sinking fund investments are assessed by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At March 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

Financing the PPOCS

In keeping with the Act respecting the Pension Plan for Peace Officers in Correctional Services, CARRA actuaries conduct an actuarial valuation every three years regarding financing the PPPOCS. In this valuation, the actuaries take legislative provisions and collective agreements into account using the valuation method the parties agree to and determining the employee and employer contribution rates. Consequently, from the beginning of the PPPOCS, CARRA has presented the Government's commitments to financing this plan as the fund it would have created, had these contributions, established on the same bases as those used to determine the employee contribution funds of the Government and Public Employees Retirement Plan entrusted to the Caisse de dépôt et placement du Québec and determined in keeping with the cost exposure, been deposited in a pension fund. However, the Act does not oblige the Government to contribute to the PPPOCS. The fair value of this fund was estimated at \$862 734 000 as at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. GOVERNMENT COMMITMENTS VIS-À-VIS THE PPPOCS (cont'd)**Financing the PPPOCS (cont'd)**

In its consolidated financial statements for the year ended as at March 31, 2008, the Government does not recognize having commitments to the PPPOCS on the basis of sharing the annual contribution for financing. According to its interpretation of the legislative provisions of the PPPOCS, the Government's commitment to the plan includes 46% of total benefits determined using accounting policies, in keeping with the recommendations of the Canadian Institute of Chartered Accountants. Consequently, the pre-recorded contribution representing the difference between the fund the parties would have created, had they capitalized their share, and the liability recorded in the Government's financial statements is no longer presented in the notes to the financial statements since the fiscal year ended March 31, 1998. However, these notes contain information on the various actuarial valuations.

Government management employee associations petitioned the Superior Court of Québec to have the Government recognize its commitment on the basis of financing towards the PPPOCS. In its July 15, 2004 ruling, the Court stated that cost-sharing in the financing of the PPOCS does not create a commitment for the Government to use the same actuarial bases as those used to set up the participating employees' pension fund, especially since there is evidence that the retirement fund of each participating employee covered is unlikely to suffer regardless of the date.

In August 2004, the petitioners appealed this ruling. In January 2006, the Québec Court of Appeal suspended this appeal to allow union organizations to institute before the Québec Superior Court, a new request for a binding declaration of right on this subject. In April 2006, such a request was tabled by these organizations. Other management organizations became involved in this request, which was granted by the Superior Court in March 2007. Consequently, the appeal will remain suspended until the Superior Court hands down its final ruling on this new request.

Change in the fund the parties would have created

	2008			2007
	Employee portion	Government portion	Total	Total
Opening balance	558 039	460 718	1 018 757	923 705
Increase				
Employee contributions and other amounts cashed	4 861	540	5 401	5 552
Government contributions				
Current service		4 216	4 216	3 903
Interest	(70 839)	(58 539)	(129 378)	118 936
Inter-plan transfers for past service	188	160	348	800
	492 249	407 095	899 344	1 052 896
Decrease				
Payment of benefits to contributors	20 101	16 220	36 321	33 775
Administrative expenses		289	289	364
Closing balance	472 148	390 586	862 734	1 018 757

The contributors' portion includes \$13 702 000 at December 31, 2008 (\$17 014 000 at December 31, 2007) for funding additional temporary life annuities.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions used by the PPPOCS administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the RREGOP prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. Changes were made to certain assumptions to take participant profiles and specific PPPOCS provisions into account. The short-term economic assumptions reflect the data known the date the valuation is tabled.

CARRA actuaries established the actuarial valuation of accrued benefits at \$621 858 000 as at December 31, 2006 for the PPOCS and \$13 500 000 as at December 31, 2005 for supplemental benefits. They estimated the actuarial value of all of these benefits at \$697 200 000 as at December 31, 2008.

Change in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	652 950	622 592
Increase		
Actuarial loss	3 023	
Change in actuarial assumptions	10 793	
Interest	42 960	41 295
Benefits accrued	23 051	20 769
Inter-plan transfers	693	1 580
	80 520	63 644
Decrease		
Benefits paid	36 270	33 286
	36 270	33 286
Net increase for the year	44 250	30 358
Closing actuarial present value of accrued pension benefits	697 200	652 950

The changes made to the PPPOCS include an amount of \$12 795 000 as at December 31, 2008 (\$13 130 000 as at December 31, 2007) for additional temporary life annuities.

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	0.75%	0.35%

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

5. PENSION OBLIGATIONS (cont'd)

Significant economic assumptions (cont'd)

Medium-term rates represent the average rates for the period 2007 to 2016, while long-term rates represent the rates used as of 2017. The yield-related assumption is determined by presuming that, if the PPPOCS were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

Obligations for capitalization purposes

Employee contributions paid into the Consolidated Revenue Fund to finance the benefits for which they are responsible are determined using different actuarial methods and assumptions than those required according Canadian generally accepted accounting principles for presenting the actuarial obligation in the financial statements.

In fact, since the creation of the PPPOCS, the method used by interest parties to determine employee contribution rates is the overall attained-age actuarial cost method, net assets. According to this method, employee contributions are adjusted based on the assets created so as to ensure future payment of the portion of the benefits for which they are responsible, both for service up to the date of valuation and service after this date by contributors who were employed on the date of valuation. Consequently, the value of actuarial obligations corresponds to the value of the assets created; there can be no asset deficit or surplus.

For capitalization purposes, the value of actuarial obligations was \$862 734 000 at December 31, 2008, which corresponds to the fund the parties would have created.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$621 858 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2006 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

André Simard, FICA, FSA
Interim Head of Actuarial Services

Québec, February 6, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Peace Officers in Correctional Services for supplemental benefits using the contributors' profile as at December 31, 2005 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$13 500 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES AT DECEMBER 31, 2005 PERFORMED FOR THE SUPPLEMENTAL BENEFITS FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have performed this report and expressed this opinion in keeping with recognized actuarial practices.

Alain Jacob, FICA, FSA
Actuary

André Simard, FICA, FSA
Actuary

Québec, February 15, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR PEACE OFFICERS IN CORRECTIONAL SERVICES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of contributions and benefits of the Pension Plan of Peace Officers in Correctional Services for the year ended December 31, 2008. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statement is free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits of this plan for the year ended December 31, 2008, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	<u>144 055</u>	<u>194 305</u>
Accounts receivables		
Employee contributions	159	68
Amounts receivable for past service	<u>202</u>	<u>227</u>
	<u>361</u>	<u>295</u>
	144 416	194 600
LIABILITIES		
Transfers and administrative expenses payable	<u>11</u>	<u>15</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u><u>144 405</u></u>	<u><u>194 585</u></u>

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
 THE GOUVERNEMENT DU QUÉBEC
 CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN ASSETS		
Employee contributions, including contributions for past service	1 017	1 036
Gouvernement du Québec contribution for past service		11 157
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>7 442</u> 8 459	<u>7 351</u> 19 544
Amounts received from the Gouvernement du Québec to pay administrative expenses	<u>25</u>	<u>40</u>
	<u>8 484</u>	<u>19 584</u>
DECREASE IN ASSETS		
Benefits paid		
Pensions	3 032	2 773
Contribution refunds and transfers, including interest	267	37
Administrative expenses	21	46
Change in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>55 344</u>	<u>(1 922)</u>
	<u>58 664</u>	<u>934</u>
NET (DECREASE) INCREASE FOR THE YEAR	(50 180)	18 650
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>194 585</u>	<u>175 935</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u>144 405</u>	<u>194 585</u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008
(in thousands of dollars)

1. DESCRIPTION OF THE PPFEQ

The following description of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ) is given for information purposes only. For more complete information concerning this plan, see orders-in-council 429-93 and 430-93 of the Gouvernement du Québec.

a) General information

The PPFEQ is a defined-benefit pension administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to federal employees transferred to the Gouvernement du Québec to administer programs related to immigration and the goods and services tax. The PPFEQ, which was sanctioned by the Gouvernement du Québec under Order-in-Council 430-93 of March 31, 1993, came into force on January 1, 1992.

b) Funding

Benefits are funded by contributors in keeping with the contribution rate established by Order-in-Council 430-93, the sums transferred from the federal government and the Government du Québec, which assumes the remaining pension obligations.

Administrative expenses for the PPFEQ are assumed by the Government du Québec.

c) Retirement benefits

Contributors are entitled to benefits at age 60 if they have 5 or more years' pensionable service, or at age 55 if they have 30 or more years' pensionable service.

They are entitled to retirement with an actuarial reduction at age 50 if they have 25 years' service.

The pension is obtained by multiplying the average pensionable earnings for the 6 consecutive best-paid years by 2% per year of service. The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

The PPFEQ provides for payment of a disability benefit to an employee who has been disabled. The benefit is calculated as a regular benefit according to the number of years of pensionable service accumulated to the plan.

e) Survivor's benefits

Upon the death of a person who had at least 5 years of service, or who was collecting a pension, the surviving spouse is entitled to a pension equal to 50% of the pension the deceased was receiving or would have received without counting the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If, at the time of death, the contributor had less than 5 years' service, the spouse, or heirs are entitled to reimbursement of the contributions plus interest.

f) Severance benefits

Persons who cease to contribute to the PPFEQ before being eligible for an immediate pension are entitled to a refund of contributions, plus interest, if they have fewer than five years' pensionable service. Otherwise, they are entitled to a deferred indexed pension payable at age 60.

g) Indexation of benefits

PPFEQ pension benefits are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of this individual fund are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to the individual fund, are included in the net assets of individual portfolios. The share of these gains or losses is added to the cost of participation deposits.

3. CAPITALIZATION POLICY

The employee contribution for the fiscal year is 5.2% of pensionable earnings, which exceeds the personal exemption under the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9) to the maximum pensionable earnings within the meaning of the same Act, and 7.5% of the remaining pensionable earnings. However, when the employee reaches 35 years of service, his/her contribution is 1% of the total wages.

Employee contributions and amounts transferred from the federal government are deposited with the CDP. Under the Order-in-Council, the Government du Québec is not obliged to contribute to the PPFEQ.

The amounts required to pay all benefits are taken from the funds entrusted to the CDP. When these funds are empty, they are taken from the Consolidated Revenue Fund. The amounts required to pay administrative costs are taken from the Consolidated Revenue Fund.

Net assets available for benefit service are more than sufficient to cover all future PPFEQ benefits. The provisions of Order-in-Council 430-93, which set up the plan and specify its terms and conditions, do not specify ownership or use of surplus assets.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC
a) Investments

	2008	2007
Participation deposits in the individual fund at fair value (cost 2008: \$191 492; 2007: \$209 376) *	143 509	182 507
Demand deposits in the General Fund (advances)	(129)	11 320
Revenue receivable from the individual fund	675	478
	<u>144 055</u>	<u>194 305</u>
* Cost of units	164 441	153 078
Cumulative share of net gains realized, but not yet distributed by individual portfolios	27 051	56 298
	<u>191 492</u>	<u>209 376</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs (cont'd)

Effect on the results of special fund 303

For the fiscal year ended December 31, 2008, the share in expenses attributed to special fund 303 is \$6 285 000 for an investment in ABCPs, via the CDP, of \$20 090 000. This loss comprises:

- the share of the \$5 879 000 (\$2 921 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$17 000 (\$404 000 in 2007); and
- the share of the \$389 000 (\$101 000 in 2007) realized losses.

Since special fund 303 also includes amounts related to the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges and individual pension plans, the amounts attributable to the PPFEQ are, respectively, \$4 191 000 (\$2 038 000 in 2007), \$12 000 (\$282 000 in 2007) and \$277 000 (\$70 000 in 2007) for an investment of \$14 220 000.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by special fund 303.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 303 is \$10 668 000.

The share in unrealized losses on ABCPs attributed to the special fund 303 of \$5 879 000 presented above includes \$394 000 for guarantees associated with ABCPs (\$602 000 in 2007).

Since special fund 303 also includes amounts related to the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges and individual pension plans, the amount attributable to the PPFEQ is \$279 000 (\$426 000 in 2007) for commitments of \$7 551 000.

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value given that they mature in the short term.

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data as at December 31, 2002 and tabled before the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)

CARRA actuaries established the actuarial value of accrued benefits at \$85 877 000 at December 31, 2004 and \$109 696 000 at December 31, 2008.

Change in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	102 918	96 204
Increase		
Interest	7 090	6 455
Benefits accrued	2 987	3 069
	10 077	9 524
Decrease		
Benefits paid	3 299	2 810
Net increase for the year	6 778	6 714
Closing actuarial present value of accrued pension benefits	109 696	102 918

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50%	2.60%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	1.00%	0.70%

Medium-term rates represent the average rates for the period 2005 to 2013, while the long-term rates represent the rates used as of 2014.

7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008	2007
Revenue from participation deposits in the individual fund	7 388	7 329
Interest on demand deposits in the General Fund	54	22
	7 442	7 351
Change in fair value		
(Losses) gains realized on the sale of investments	(6 642)	5 597
Share in (losses) gains realized by individual portfolios	(27 588)	14 457
Unrealized (losses)	(21 114)	(18 132)
	(55 344)	1 922

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec using the contributors' profile as at December 31, 2004 to determine the value of the obligations resulting from the Plan and to be posted to the financial statement. It reveals that, at that date, this value was \$85 877 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION REPORT FOR THE PENSION PLAN FOR
FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH THE GOUVERNEMENT DU QUÉBEC AT
DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENT**

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

I have performed this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, June 20, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLAN FOR FEDERAL EMPLOYEES TRANSFERRED TO EMPLOYMENT WITH
THE GOUVERNEMENT DU QUÉBEC
AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted the auditing standards, which requires planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008 and the changes in this position for the year then ended, in accordance with the accounting principles that are generally accepted in Canada. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. RC-32.1.2)

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

(R.S.Q., c. R-9.3)

NET ASSETS AVAILABLE FOR BENEFITS

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	120 927	161 665
Accounts receivable		
Employee contributions	191	174
Employer contributions	495	422
Amounts receivable from beneficiaries	26	16
	712	612
Cash on hand	46	45
	<u>121 685</u>	<u>162 322</u>
LIABILITIES		
Contribution refunds and pensions payable	430	197
Prepaid employer contributions	459	688
Administrative expenses payable	25	100
	<u>914</u>	<u>985</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u><u>120 771</u></u>	<u><u>161 337</u></u>

The notes are an integral part of these financial statements.

For the pension committee,

Jacynthe B. Simard

Yvon Bouchard

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2008

(in thousands of dollars)

	2008		2007	
INCREASE IN NET ASSETS				
Employee contributions, including contributions for past service		2 192		2 067
Employer contributions, including contributions for past service				
Pension Plan of Elected Municipal Officers	7 224		7 001	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 910</u>	10 134	<u>2 753</u>	9 754
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)				
Pension Plan of Elected Municipal Officers	6 304		6 713	
Supplemental Pension Plan for Elected Municipal Officials	<u>45</u>	6 349	<u>63</u>	6 776
Other interest income		<u>8</u>		<u>18</u>
		<u>18 683</u>		<u>18 615</u>
DECREASE IN NET ASSETS				
Benefits paid				
Pensions				
Pension Plan of Elected Municipal Officers	8 358		8 017	
Supplemental Pension Plan for Elected Municipal Officials	<u>2 952</u>	11 310	<u>2 812</u>	10 829
Contribution refunds and transfers, including interest				
Pension Plan of Elected Municipal Officers	91		146	
Supplemental Pension Plan for Elected Municipal Officials	<u>3</u>	94	<u>7</u>	153
Administrative expenses				
Pension Plan of Elected Municipal Officers		263		116
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)		<u>47 582</u>		<u>(1 145)</u>
		<u>59 249</u>		<u>9 953</u>
NET (DECREASE) INCREASE FOR THE YEAR		(40 566)		8 662
OPENING NET ASSETS AVAILABLE FOR BENEFITS		<u>161 337</u>		<u>152 675</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS		<u>120 771</u>		<u>161 337</u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of Elected Municipal Officers

Supplemental Pension Plan for Elected Municipal Officials

The following description is given for information purposes only. For more complete information concerning these plans, see the *Act respecting the Pension Plan of Elected Municipal Officers* (R.S.Q., c. R-9.3) and Order-in-Council 1440-2002 of the Gouvernement du Québec.

a) General information

The Pension Plan of Elected Municipal Officers (PPEMO) and Supplemental Pension Plan for Elected Municipal Officials (SPPEMO) are defined-benefit pension administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to members of a municipal council that passes a by-law to join the plan.

The SPPEMO, which has been in effect since January 1, 2002, applies to elected municipal officials in office at December 31, 2000 et and to persons entitled to a PPEMO pension at this date.

b) Funding

PPEMO benefits are funded by contributors and municipalities according to the contribution rates stipulated in the Act and the related regulations.

SPPEMO benefits are funded by the municipalities subject to the PPEMO at December 31, 2000.

The amounts needed to cover the administrative expenses are taken from the plan's cash on hand.

c) Retirement benefits

Contributors are entitled to benefits without any actuarial reduction at age 69 or, if they are no longer members of a municipal council and have at least two years' pensionable service, at age 60.

Contributors are entitled to an actuarially reduced pension at age 50 and if they have at least two years' pensionable service.

For each year of service prior to January 1, 1992, contributors are entitled to a pension credit equal to 3.5% of pensionable earnings less 0.7% of the lesser of these earnings or the maximum admissible earnings under the Act respecting the Québec Pension Plan and, for each year of service subsequent to December 31, 1991, to a pension credit equal to 2% of the pensionable service. This pension credit is fully indexed to the increase in the cost of living every year until the contributor retires.

Those persons to whom the SPPEMO applies acquire the right to a supplemental benefit the same date they become eligible for a PPEMO retirement pension. The benefits for contributors in office at December 31, 2000 correspond to the surplus of 3.75% of pensionable earnings on the pension credit calculated for the PPEMO for each year prior to January 1, 2002. These amounts are indexed the same way as PPEMO pension credits.

For retirees and surviving spouses, the supplemental pension corresponds to 24.1% of the annual pension payable on December 31, 2001. For contributors not working at December 31, 2000, the supplemental benefit corresponds to 24.1% of the annual pension payable the date the benefit is paid.

d) Survivor's benefits

If the person dies while contributing to the PPEMO, is eligible for a retirement pension without deduction or is receiving a retirement pension, his spouse is entitled to a pension of 60% of the pension the person would have been entitled to receive or was receiving. If the person has no spouse, the contributions with interest are reimbursed to the heirs, minus any benefits paid by the PPEMO.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension Plan of Elected Municipal Officers

Supplemental Pension Plan for Elected Municipal Officials (cont'd)

d) Survivor's benefits (cont'd)

If the person dies before being eligible for a retirement pension without an actuarial reduction and has at least two years' service, contributions with interest are reimbursed to the heirs. If the person has two years' service or more, his or her heirs are entitled to the actuarial valuation of the pension acquired under the PPEMO or SPPEMO.

e) Severance benefits

A person who stops contributing to the PPEMO before being eligible for a retirement pension is eligible for reimbursement of his/her contributions plus interest. If the person is under age 50 and has from two to seven years' service, he/she can choose between having his/her contributions reimbursed with interest or receiving an indexed, deferred pension payable at age 60. If the person is under age 50 and has at least eight years' service, he/she is eligible for an indexed, deferred pension payable at age 60.

The deferred pension includes the amounts of pension credits acquired under the PPEMO or SPPEMO.

f) Indexation of benefits

Pension benefits under the PPEMO are partially indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

The municipalities' prepaid employer contributions will be reported in the item Employer contributions of the PPEMO in the next fiscal year.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of this individual fund are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. The share in these gains or losses is added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

3. CAPITALIZATION POLICY

The employee contribution to the PPEMO is 5.55% of pensionable earnings.

The municipality, intermunicipal board, agent or supramunicipal agency pays a provisional contribution calculated using a factor determined by a Gouvernement du Québec regulation. For fiscal 2008, the factor used to establish this provisional contribution was 3.37 times the employee contribution.

Employee and employer contributions are deposited in the Caisse de dépôt et placement du Québec and the amounts required to benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec.

The PPEMO is not capitalized and the municipalities' contribution corresponds to the benefits paid by this plan during the fiscal year.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

a) Investments

	2008	2007
Participation deposits in the individual fund – at fair value (cost 2008: 159 780; 2007: 182 551) *	119 893	161 048
Demand deposits in the General Fund	525	199
Revenue receivable from individual fund	509	418
	<u>120 927</u>	<u>161 665</u>
 * Cost of units	 136 012	 134 331
Cumulative share of net realized gains not yet broken down by individual portfolio	<u>23 768</u>	<u>48 220</u>
	<u>159 780</u>	<u>182 551</u>

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs (cont'd)

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called "master asset vehicles." These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of special fund 305

For the fiscal year ended December 31, 2008, the share in expenses attributed to special fund 305 is \$4 378 000 for an investment in ABCPs, via the CDP, of \$13 992 000. This loss comprises:

- the share of the \$4 095 000 (\$2 034 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$12 000 (\$282 000 in 2007); and
- the share of the \$271 000 (\$70 000 in 2007) realized losses.

Since special fund 305 also includes amounts related to the RPMCM, the amounts attributable to the PPEMO are, respectively, \$3 862 000 (\$1 903 000 in 2007), \$11 000 (\$264 000 in 2007) and \$256 000 (\$65 000 in 2007) for an investment of \$13 160 000.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by special fund 305.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPs (cont'd)**Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 305 is \$7 430 000.

The share in unrealized losses on ABCPs attributed to special fund 305 of \$4 095 000 presented above includes \$275 000 for guarantees associated with ABCPs (\$419 000 in 2007).

Since special fund 305 also includes amounts related to the RPMCM, the amount attributable to the PPEMO is \$258 000 (\$394 000 in 2007) for commitments of \$6 989 000.

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, cash and liabilities is equal to their book value, given that they mature in the short term.

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined in accordance with the projected benefit method prorated by service and the most probable assumptions in the opinion of the PPEMO administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the actuarial valuation of the RREGOP prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. The short-term economic assumptions reflect the data known when the valuation was tabled.

CARRA actuaries established the actuarial value of PPEMO accrued benefits at \$136 663 000 and those of the SPPEMO at \$48 357 000 at December 31, 2006 and estimated respectively at \$150 938 000 and \$48 697 000 at December 31, 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF ELECTED MUNICIPAL OFFICERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

6. PENSION OBLIGATIONS (cont'd)**Changes in pension obligations**

	2008	2007
PPEMO		
Opening actuarial present value of accrued pension benefits	142 014	135 027
Increase		
Actuarial loss	553	
Change in actuarial assumptions	998	
Interest	9 269	8 981
Benefits accrued	6 553	6 169
	17 373	15 150
Decrease		
Benefits paid	8 449	8 163
Net increase for the year	8 924	6 987
Closing actuarial present value of accrued pension benefits	150 938	142 014
SPPEMO		
Opening actuarial present value of accrued pension benefits	48 787	48 453
Increase		
Change in actuarial assumptions	293	
Interest	3 061	3 153
	3 354	3 153
Decrease		
Actuarial gain	489	
Benefits paid	2 955	2 819
	3 444	2 819
Net (decrease) increase for the year	(90)	334
Closing actuarial present value of accrued pension benefits	48 697	48 787
	199 635	190 801

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.00%	2.25%
Rate of return net of inflation	4.50%	4.50%
Salary escalation net of inflation	0%	0%

Medium-term rates represent the average rates for the period 2007 to 2016, while long-term rates represent rates used as of 2017.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousands of dollars)

7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008	2007
Revenue from participation deposits in the individual fund	6 337	6 753
Interest on demand deposits in the General Fund	12	23
	<u>6 349</u>	<u>6 776</u>
Change in fair value		
(Losses) gains realized on the sale of investments	(6 303)	5 035
Share in (losses) gains realized by individual portfolios	(22 896)	12 562
Unrealized (losses)	<u>(18 383)</u>	<u>(16 452)</u>
	<u>(47 582)</u>	<u>1 145</u>

8. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Pension Plan of Elected Municipal Officers using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$136 663 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF ELECTED MUNICIPAL OFFICERS AT DECEMBER 31, 2006 PERFORMED
POUR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE FINANCIAL
STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 5, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****ACTUARIAL VALUATION**

CARRA actuaries performed an actuarial valuation of the Supplemental Pension Plan for Elected Municipal Officials using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$48 357 000.

**ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR ELECTED MUNICIPAL OFFICIALS AT DECEMBER 31,
2006 PERFORMED POUR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN THE
FINANCIAL STATEMENTS**

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accounts) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 5, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**PENSION PLANS OF ELECTED MUNICIPAL OFFICERS****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Pension Plans of Elected Municipal Officers as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2008 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES
(R.S.Q., c. R-16)
NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2008
(in thousand of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 3)	7 278	11 096
Amounts receivable from the municipalities	<u>5</u>	<u>6</u>
	<u>7 283</u>	<u>11 102</u>
LIABILITIES		
Contributions refundable and pensions payable	<u>99</u>	<u>32</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 5)	<u><u>7 184</u></u>	<u><u>11 070</u></u>

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2008

(in thousand of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN NET ASSETS		
Revenue from funds entrusted to the Caisse de dépôts et placement du Québec (Note 6)	<u>458</u>	<u>491</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	1 276	1 262
Contribution refunds and transfers, including interest	109	65
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>2 959</u>	<u>(182)</u>
	<u>4 344</u>	<u>1 145</u>
DECREASE FOR THE YEAR	3 886	654
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>11 070</u>	<u>11 724</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u><u>7 184</u></u>	<u><u>11 070</u></u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for the Mayors and Councillors of Municipalities is given for information purposes only. For more complete information concerning this plan, see the *Act respecting retirement plans for the mayors and councillors of municipalities* (R.S.Q., c. R-16).

a) General information

The Plan is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to members of a municipal council that passes a by-law to join the plan.

The right to participate in the Retirement Plan for the Mayors and Councillors of Municipalities was abolished with the coming into force of the *Act respecting the Pension Plan of Elected Municipal Officers* (R.S.Q., c. R-9.3) on January 1, 1989.

b) Funding

Benefits are taken from the pension fund created for the plan. When there are no more beneficiaries, there is likely to be a surplus or deficit. Since the Act governing the plan does not specify to whom the remaining surplus belongs or who will assume payment of the benefit until it expires, the parties concerned (Government, employers and contributors) will eventually have to rule on this matter.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors were entitled to benefits if they have at least eight years' pensionable service. The pension is calculated on the basis of the employee and employer contributions, plus interest, that have accumulated in the contributor's account. This pension is payable at age 60 and is not indexed to the cost of living increase.

d) Survivor's benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is/are entitled to receive the pension until the 15-year period expires or, upon request, an amount equal to the pension's present value.

If a person dies before beginning to receive his retirement pension, his spouse or heirs is/are entitled to reimbursement of the amounts accumulated in the account.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of this individual fund are composed primarily of participating units in individual Caisse de dépôt et placement du Québec portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, not distributed to the individual fund, are included in the net assets of individual portfolios. The share in these gains or losses is added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**a) Investments**

	2008	2007
Participation deposits in the individual fund – at fair value (cost 2008: 9 659; 2007: 12 544) *	7 248	11 067
Revenue receivable from the individual fund	30	29
	<u>7 278</u>	<u>11 096</u>
 * Cost of units	 7 170	 8 158
Cumulative share of realized net gains not yet broken down by individual portfolio	<u>2 489</u>	<u>4 386</u>
	<u>9 659</u>	<u>12 544</u>

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs (cont'd)

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of special fund 305

For the fiscal year ended December 31, 2008, the share in expenses attributed to special fund 305 is \$4 378 000 for an investment in ABCPs, via the CDP, of \$13 992 000. This loss comprises:

- the share of the \$4 095 000 (\$2 034 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$12 000 (\$282 000 in 2007); and
- the share of the \$271 000 (\$70 000 in 2007) realized losses.

Since special fund 305 also includes amounts related to the Pension Plan for Elected Municipal Officers, the amounts attributable to the RPMCM are, respectively, \$233 000 (\$131 000 in 2007), \$1 000 (\$18 000 in 2007) and \$15 000 (\$5 000 in 2007) for an investment of \$832 000.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by special fund 305.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 305 is \$7 430 000.

The share in unrealized losses on ABCPs attributed to the special fund 305 of \$4 095 000 presented above includes \$275 000 for guarantees associated with ABCPs (\$419 000 in 2007).

Since special fund 305 also includes amounts related to the Pension Plan for Elected Municipal Officers, the amount attributable to the RPMCM is \$17 000 (\$25 000 in 2007) for commitments of \$441 000.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

4. FINANCIAL INSTRUMENTS

The fair value of amounts receivable from the municipalities, contributions refundable and accounts payable, cash and liabilities is equal to their book value, given that they mature in the short term.

5. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable assumptions used by the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the actuarial valuation for the RREGOP prepared using data as at December 31, 2005 and presented to the retirement committee on October 15, 2007. The assumptions required concern the age at which the retirement pension of non-working contributors is paid, the mortality rate of non-working contributors and retirees and asset yield. The average rate for the years 2007 to 2016 is 6.75% while the long-term rate is 7.5% as of 2017.

CARRA actuaries established the actuarial value of accrued benefits at \$12 620 000 at December 31, 2006 and estimated it at \$11 460 000 as at December 31, 2008.

Changes in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	10 864	11 436
Increase		
Corrections to participant data	131	
Actuarial loss	132	
Change in actuarial assumptions	977	
Interest	741	723
	1981	723
Decrease		
Benefits paid	1 385	1 295
Net increase (decrease) for the year	596	(572)
Closing actuarial present value of accrued pension benefits	11 460	10 864

6. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008	2007
Net investment income from the individual fund	458	491
Change in fair value		
(Losses) gains realized on the sale of investments	(579)	365
Share in (losses) gains realized by individual portfolios	(1 447)	906
Unrealized (losses)	(933)	(1 089)
	(2 959)	182

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Retirement Plan for the Mayors and Councillors of Municipalities using the contributors' profile as at December 31, 2006 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$12 620 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES AT
DECEMBER 31, 2006 PERFORMED FOR PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN
IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Daniel Cantin, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, October 27, 2008

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR THE MAYORS AND COUNCILLORS OF MUNICIPALITIES

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the Retirement Plan for the Mayors and Councillors of Municipalities as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)
RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NET ASSETS AVAILABLE FOR BENEFITS
as at December 31, 2008
(in thousand of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 4)	57 075	77 833
Accounts receivable		
Employee contributions	9	11
Employer contributions	2	1
Amounts receivable from beneficiaries	13	
	24	12
	<u>57 099</u>	<u>77 845</u>
LIABILITIES		
Surplus employee contributions to be refunded	1	1
NET ASSETS AVAILABLE FOR BENEFITS (Note 6)	<u>57 098</u>	<u>77 844</u>

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

for the year ended December 31, 2008

(in thousand of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN NET ASSETS		
Employee contributions, including contributions for past service	15	30
Employer contributions, including contributions for past service	14	20
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>3 053</u>	<u>3 149</u>
	<u>3 082</u>	<u>3 199</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	2 321	2 272
Transfers, including interest		123
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>21 507</u>	<u>(939)</u>
	<u>23 828</u>	<u>1 456</u>
NET (DECREASE) INCREASE FOR THE YEAR	(20 746)	1 743
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>77 844</u>	<u>76 101</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u><u>57 098</u></u>	<u><u>77 844</u></u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousand of dollars)

1. DESCRIPTION OF THE PLAN

The following description of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges is given for information purposes only. For more complete information concerning this plan, see orders-in-council 2497-81 and 397-78 of the Gouvernement du Québec.

a) General information

The Plan is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to certain active employees of the Centre hospitalier Côte-des-Neiges and certain other hospital centres.

b) Funding

Benefits are funded by contributors according to the contribution rates set by orders-in-council 2497-81 and 397-78 and hospital centres, which assume the remainder of the pension obligations.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Retirement benefits

Contributors are entitled to benefits without an actuarial reduction at age 60 if they have 5 or more years' pensionable service or at age 55 if they have 30 or more years' pensionable service.

Contributors are entitled to an actuarially reduced pension at age 50 if they have 25 years' pensionable service.

The pension is obtained by multiplying the average pensionable earnings for the 6 consecutive best-paid years by 2% per year of service (maximum 35 years' service). The pension is reduced as of age 65 in order to coordinate it with that of the Québec Pension Plan.

d) Disability benefits

A disability benefit is payable to participants that become disabled. It is calculated like regular benefits based on the number of years of service accumulated under the Plan.

e) Survivor's benefits

If a person dies with less than 5 years' service or when receiving a retirement pension, his/her spouse is entitled to a pension of 50% of the amount that the person entitled to receive the pension or receiving it was entitled to, without taking into account the reduction resulting from coordination with the Québec Pension Plan. Each dependent child is eligible for a pension equal to 10% of this pension if a pension is paid to the spouse, or to 20% of the pension if no pension is paid to the spouse. In the first case, the total pension awarded to all dependent children must not exceed 40% of the pension the deceased was receiving or would have received, while in the second case, it must not exceed 80% of this pension.

If the person dies and has less than five years' service, the spouse, or if there is no spouse, the heirs, is/are entitled to reimbursement of the contributions with interest.

f) Severance benefits

Persons who cease to contribute to the plan before being eligible for an immediate pension are entitled to a deferred indexed pension at age 60 if they have at least 10 years' pensionable service and are aged 45 or over; otherwise, they can choose between a deferred pension or a refund of contributions with interest.

g) Indexation of benefits

Pension benefits under this plan are fully indexed to the cost of living increase.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of the individual fund are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, not distributed to the individual fund, are included in the net assets of individual portfolios. The share in these gains or losses is added to the cost of the participation deposits.

3. CAPITALIZATION POLICY

The employee contribution is 7.6% of the pensionable wages less the contributions paid under the Act respecting the Québec Pension Plan (R.S.Q., c. R-9). The hospital centre contribution for current service corresponds to 81% of the employee contribution.

Employee and employer contributions are deposited in the CDP and the amounts required for benefit payment are taken from the funds entrusted to the CDP.

Net assets available for benefit service are more than sufficient to cover all future RPAMCHCN plan benefits. The provisions of Order-in-Council 397-78 do not specify ownership or use of surplus assets.

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

a) Investments

	2008	2007
Participation deposits in the individual fund at fair value (cost- 2008: 75 801; 2007: 89 057) *	56 807	77 628
Demand deposits in the General Fund	1	2
Revenue receivable from the individual fund	267	203
	<u>57 075</u>	<u>77 833</u>
 * Cost of units	 61 736	 63 071
Cumulative share of net realized gains not yet broken down by individual portfolio	<u>14 065</u>	<u>25 986</u>
	<u>75 801</u>	<u>89 057</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

4. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

Effect on the results of special fund 303

For the fiscal year ended December 31, 2008, the share in expenses attributed to special fund 303 is \$6 285 000 for an investment in ABCPs, via the CDP, of \$20 090 000. This loss comprises:

- the share of the \$5 879 000 (\$2 921 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$17 000 (\$404 000 in 2007); and
- the share of the \$389 000 (\$101 000 in 2007) realized losses.

Since special fund 303 also includes amounts related to the Pension Plan for Federal Employees transferred to Employment with the Gouvernement du Québec and individual pension plans, the amounts attributable to the RPCHCN are, respectively, \$1 659 000 (\$867 000 in 2007); \$5 000 (\$120 000 in 2007) and \$110 000 (\$30 000 in 2007) for an investment of \$5 766 000\$.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by special fund 303.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 303 is \$10 668 000.

The share in unrealized losses on ABCPs attributed to the special fund 303 of \$5 879 000 presented above includes \$394 000 for guarantees associated with ABCPs (\$602 000 in 2007).

Since special fund 303 also includes amounts related to the Pension Plan for Federal Employees transferred to Employment with the Gouvernement du Québec and individual pension plans, the amount attributable to the RPCHCN is \$113 000 (\$172 000 in 2007) for commitments of \$ 3 061 000.

5. FINANCIAL INSTRUMENTS

The fair value of accounts payable, surplus employee contributions and pensions payable is equal to their book value, given that they mature in the short term.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousand of dollars)

6. PENSION OBLIGATIONS

In keeping with Canadian generally accepted the accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable assumptions used by the plan administrator.

The assumptions chosen by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuations conducted using data from the Government and Public Employees Retirement Plan as at December 31, 2002 and tabled before the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits at \$31 132 000 as at December 31, 2004 and estimated it at \$29 952 000 as at December 31, 2008.

Changes in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	30 189	30 455
Increase		
Interest	2 006	1 965
Benefits accrued	78	164
	2 084	2 129
Decrease		
Benefits paid to participants	2 321	2 395
Net decrease for the year	237	266
Closing actuarial present value of accrued pension benefits	29 952	30 189

Significant economic assumptions

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50%	2.60%
Rate of return net of inflation	4.50%	4.50%
Salary escalation rate net of inflation	1.00%	0.70%

Medium-term rates represent the average rates for the period 2005 to 2013, while long-term rates represent the rates used as of 2014.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

December 31, 2008

(in thousand of dollars)

7. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2008</u>	<u>2007</u>
Net investment income from the individual fund	3 050	3 145
Interest on demand deposits in the General Fund	<u>3</u>	<u>4</u>
	<u>3 053</u>	<u>3 149</u>
Change in fair value		
(Losses) gains realized on the sale of investments	(2 920)	2 401
Share of (losses) gains realized by the individual portfolios	(11 022)	6 202
Unrealized losses	<u>(7 565)</u>	<u>(7 664)</u>
	<u>(21 507)</u>	<u>939</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges using the contributors' profile as at December 31, 2004 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$31 132 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES
AT DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

André Simard, FICA, FSA
Actuary

Québec, July 12, 2006

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**RETIREMENT PLAN FOR ACTIVE MEMBERS OF THE CENTRE HOSPITALIER CÔTE-DES-NEIGES****AUDITOR'S REPORT**

To the National Assembly

I have audited the statement of net assets available for benefits of the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted the auditing standards, which require planning and performing an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of this plan as at December 31, 2008 and changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud, Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. C-32.1.2)

SPECIAL PENSION PLANS**NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2008

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments		
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 3)	<u>\$1 007 746</u>	<u>\$1 456 315</u>
NET ASSETS AVAILABLE FOR BENEFITS (Notes 4 and 5)	<u><u>\$1 007 746</u></u>	<u><u>\$1 456 315</u></u>

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS****CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**
for the year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
INCREASE IN NET ASSETS		
Employer contributions, including contributions for past service	\$10 011	\$8 954
Revenue from funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>57 498</u>	<u>61 300</u>
	<u>67 509</u>	<u>70 254</u>
DECREASE IN NET ASSETS		
Benefits paid		
Pensions	134 630	140 754
Changes in the fair value of funds entrusted to the Caisse de dépôt et placement du Québec (Note 6)	<u>381 448</u>	<u>(29 436)</u>
	<u>516 078</u>	<u>111 318</u>
NET DECREASE FOR THE YEAR	<u>448 569</u>	<u>41 064</u>
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>1 456 315</u>	<u>1 497 379</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u>\$1 007 746</u>	<u>\$1 456 315</u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

1. DESCRIPTION OF THE PLANS

Pension plan of the former employees of the City of Saint-Laurent

The following description of the Pension Plan of the Former Employees of the City of Saint-Laurent is given for information purposes only. For more complete information concerning this plan, see Order-in-Council 842-82 of the Gouvernement du Québec.

a) General information

The Plan is a defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to former employees of the City of Saint-Laurent's health and social services sector who, since September 19, 1976, have been in a job covered by the Government and Public Employees Retirement Plan (RREGOP).

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec. The employer assumes total plan costs minus employee contributions.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Survivor's benefits

Upon the death of a beneficiary, the surviving spouse or the heirs are entitled to reimbursement of the person's contributions without interest minus any benefits paid.

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan of the former employees of the Town of Westmount

The following description of the Pension Plan of the Former Employees of the Town of Westmount is given for information purposes only. For more complete information concerning this plan, please consult Order-in-Council 2174-84 of the Gouvernement du Québec.

a) General information

The Plan is administered by CARRA. It is a defined-benefit pension plan offered to former employees of the Town of Westmount who contributed to the general pension plan of the Town of Westmount and who were integrated into the Montreal General Hospital as of April 1, 1976.

b) Funding

Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec. The employer assumes total plan costs minus employee contributions.

Expenses related to the administration of this plan are assumed by the Gouvernement du Québec.

c) Survivor's benefits

If a person dies having received a retirement pension for less than five years, the surviving spouse or heirs are entitled to the pension until this five-year period expires or to the pension's current value.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the former employees of the Town of Westmount (cont'd)

d) Indexation of benefits

Pension benefits under this plan are not indexed to the cost of living increase.

Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais

The following description of the Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais is given for information purposes only. For more complete information concerning this plan, please consult Orders-in-Council 2661-76 and 40-89 of the Gouvernement du Québec:

a) General information

The Plan is administered by CARRA. It is defined-contribution pension plan.

b) Funding

Contributions are no longer paid into this plan, with the exception of employer contributions for the purpose of indexing pensions paid. Employee and employer contributions were deposited with the Caisse de dépôt et placement du Québec and amounts required for benefit payment are taken from the funds entrusted to the Caisse de dépôt et placement du Québec. The orders-in-council do not specify to whom the surplus at plan termination belongs or who will assume payment of benefits until it terminates. The parties in question (Government, employer and participants) will eventually have to rule on this matter.

c) Survivor's benefits

Upon the death of a person who had been receiving a pension for fewer than 15 years, the surviving spouse or heirs is/are entitled to receive the pension until the 15-year period expires, or an amount equal to the pension's present value.

d) Indexation of benefits

Pension benefits under these plans are fully indexed to the cost of living increase.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation, recognition of the contributions, revenues from funds entrusted to the Caisse de dépôt et placement du Québec (CDP), benefits and measurement of benefit-related obligations for the period covered by the financial statements. Real results may differ from these estimates.

Employee and employer contributions

Adjustments to employee and employer contributions are recorded when the amounts are determined.

Funds entrusted to the Caisse de dépôt et placement du Québec

Participation deposits in individual funds of the CDP are recorded at the fair value established by the latter using evaluation methods employed on capital markets, such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. The CDP performs some evaluations using common evaluation methods.

The investments of these individual funds are composed primarily of participating units in individual CDP portfolios. The net gains or losses on the sale of investments earned by these individual portfolios, which are not distributed to individual funds, are included in the net assets of individual portfolios. The share of these gains or losses is added to the cost of participation deposits.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC**a) Investments**

	2008	2007
Participation deposits in the individual fund at fair value (cost- 2008: \$1 338 343; 2007: \$1 666 280) *	\$1 002 979	\$1 452 440
Revenue receivable from the individual fund	4 767	3 875
	<u>\$1 007 746</u>	<u>\$1 456 315</u>
 * Cost of units	 \$1 072 905	 \$1 162 623
Cumulative share in net realized gains not yet broken down by individual portfolio	265 438	503 657
	<u>\$1 338 343</u>	<u>\$1 666 280</u>

b) Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was established by the CDP considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called "master asset vehicles." These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

3. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Third-party and bank-sponsored ABCPs (cont'd)***Fair value establishment*

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of special fund 303

For the fiscal year ended December 31, 2008, the share in expenses attributed to special fund 303 is \$6 285 000 for an investment in ABCPs, via the CDP, of \$20 090 000. This loss comprises:

- the share of the \$5 879 000 (\$2 921 000 in 2007) unrealized loss on these securities;
- the share in the reversal of interest paid to specialized portfolios was \$17 000 (\$404 000 in 2007); and
- the share of the \$389 000 (\$101 000 in 2007) realized losses.

Since special fund 303 also includes amounts related to the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges and the Pension Plan for Federal Employees transferred to Employment with the Gouvernement du Québec, the amounts attributable to individual pension plans are, respectively, \$29 000 (\$16 000 in 2007), \$0 (\$2 000 in 2007) and \$2 000 (\$1000 in 2007) for an investment of \$104 000.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by special fund 303.

Commitments associated with third-party and bank-sponsored ABCPs

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 303 is \$10 668 000.

The share in unrealized losses on ABCPs attributed to the special fund 303 of \$5 879 000 presented above includes \$394 000 for guarantees associated with ABCPs (\$602 000 in 2007).

Since special fund 303 also includes amounts related to the Retirement Plan for Active Members of the Centre hospitalier Côte-des-Neiges and the Pension Plan for Federal Employees transferred to Employment with the Gouvernement du Québec, the amount attributable to individual pension plans is \$2 000 (\$3 000 in 2007) for commitments of \$56 000.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**SPECIAL PENSION PLANS**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

4. NET ASSETS AVAILABLE FOR BENEFITS

	2008	2007
Pension Plan of the Former Employees of the City of Saint-Laurent	\$635 203	\$915 209
Pension Plan of the Former Employees of the Town of Westmount	218 043	305 834
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	154 500	235 272
	<u>\$1 007 746</u>	<u>\$1 456 315</u>

5. PENSION OBLIGATIONS**Valuation of pension obligations**

In keeping with Canadian generally accepted accounting principles, pension obligations were determined using the projected benefit method prorated by services and the most probable hypotheses according to the Plan administrator.

The assumptions used by CARRA are deemed most probable by its actuaries in the actuarial valuations prepared using data from the Government and Public Employees Retirement Plan (RREGOP) as at December 31, 2005 and tabled before the retirement committee on October 15, 2007. Given that there were no longer any active participants, the assumptions required concern the mortality rate and asset yield. The average rate of return for the period 2008 to 2016 is 6.8 % and is 7.5 % after 2016.

Changes in pension obligations

	2008	2007
Opening actuarial present value of accrued pension benefits	<u>\$1 047 879</u>	<u>\$1 131 978</u>
Increase		
Actuarial loss	31 297	
Change in actuarial assumptions	1 302	38 678
Interest	63 736	71 128
	<u>96 335</u>	<u>109 806</u>
Decrease		
Actuarial gain		53 151
Benefits paid	134 630	140 754
	<u>134 630</u>	<u>193 905</u>
Net decrease for the year	<u>38 295</u>	<u>84 099</u>
Closing actuarial present value of accrued pension benefits	<u>\$1 009 584</u>	<u>\$1 047 879</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

5. PENSION OBLIGATIONS (cont'd)

Composed of:

Pension Plan of the Former Employees of the City of Saint-Laurent	\$622 552	\$647 688
Pension Plan of the Former Employees of the Town of Westmount	120 178	125 536
Pension plan for the chairman of the Conseil de la Communauté urbaine de l'Outaouais	<u>266 854</u>	<u>274 655</u>
	<u>\$1 009 584</u>	<u>\$1 047 879</u>

6. REVENUE FROM FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	<u>2008</u>	<u>2007</u>
Net investment income from the individual fund	\$57 366	\$61 089
Interest on demand deposits in the General Fund	<u>132</u>	<u>211</u>
	<u>\$57 498</u>	<u>\$61 300</u>
Change in fair value		
Losses (gains) realized on the sale of investments	\$(58 397)	\$46 649
Share of (losses) gains realized by individual portfolios	(201 528)	122 150
Unrealized (losses)	<u>(121 523)</u>	<u>(139 363)</u>
	<u>\$(381 448)</u>	<u>\$29 436</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Former Employees of the City of Saint-Laurent using the contributors' profile as at December 31, 2008 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$622 552.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE FORMER EMPLOYEES OF THE CITY OF SAINT-LAURENT AT
DECEMBER 31, 2008 PERFORMED FOR THE PRESENTING OF THE VALUE OF OBLIGATIONS RESULTING FROM
THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 3, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Former Employees of the Town of Westmount using the contributors' profile as at December 31, 2008 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$120 178.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE FORMER EMPLOYEES OF THE TOWN OF WESTMOUNT AT DECEMBER
31, 2008 PERFORMED FOR THE PRESENTING OF THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN
THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 3, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Chairman of the Conseil de la Communauté urbaine de l'Outaouais using the contributors' profile as at December 31, 2008 to determine the value of the obligations resulting from the Plan in the financial statements. It reveals that, at that date, this value was \$266 854.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE CHAIRMAN OF THE CONSEIL DE LA COMMUNAUTÉ URBAINE DE
L'OUTAOUAIS AT DECEMBER 31, 2008 PERFORMED FOR THE PRESENTING OF THE VALUE OF OBLIGATIONS
RESULTING FROM THE PLAN IN THE FINANCIAL STATEMENTS

In my opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

I have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Québec, February 3, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

SPECIAL PENSION PLANS

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of net assets available for benefits of the special pension plans mentioned in Note 1 as at December 31, 2008 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of CARRA management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of these plans as at December 31, 2008 and the changes in this position for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

(R.S.Q., c. C-32.1.2)

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

(R.S.Q., c. C-52.1)

STATEMENT OF CONTRIBUTIONS AND BENEFITS

for the year ended December 31, 2008

(in thousands of dollars)

	2008	2007
CONTRIBUTIONS		
Employee contributions, including contributions for past service		
Pension Plan of the Members of the National Assembly	1 085	1 157
AMOUNTS DEPOSITED IN THE CONSOLIDATED REVENUE FUND	<u>1 085</u>	<u>1 157</u>
BENEFITS		
Benefits paid		
Pensions		
Pension Plan of the Members of the National Assembly	9 383	9 273
Supplement pension plan for members of the National Assembly	3 489	3 291
Special Pension	<u>12</u>	<u>12</u>
	12 884	12 576
Contribution refunds and transfer, including interest		
Pension Plan of the Members of the National Assembly		199
Transfer, including interest		
Pension Plan of the Members of the National Assembly	130	752
Administrative expenses		
Pension Plan of the Members of the National Assembly	<u>37</u>	<u>18</u>
AMOUNTS TAKEN FROM THE CONSOLIDATED REVENUE FUND TO PAY BENEFITS AND ADMINISTRATIVE EXPENSES	<u>13 051</u>	<u>13 545</u>

PENSION OBLIGATIONS (Note 4)**LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (Note 5)**

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the BoardJocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS

Pension Plan of the Members of the National Assembly Supplemental pension plan for members of the National Assembly Special Pension Plan

The following description is given for information purposes only. For more complete information concerning these plans, see the following official texts:

- the *Act respecting the conditions of employment and the pension plan of the Members of the National Assembly* (R.S.Q., c. C-52.1);
- the *Regulation respecting the supplemental pension plan of members of the National Assembly*;
- the *Act granting a pension to the widow of Pierre Laporte* (Q.S. 1970, c. 6).

a) General information

The Pension Plan of the Members of the National Assembly (PPMNA) and the Supplemental pension plan of members of the National Assembly (SPPMNA) are defined-benefit pension plan administered by the Commission administrative des régimes de retraite et d'assurances (CARRA) and offered to the Members of the National Assembly. The special pension constitutes the benefits granted to the widow of Pierre Laporte.

b) Funding

For the PPMNA, benefits are funded by participants according to the contribution rate set by the Act and by the Government, which assumes the remaining pension obligations.

For the SPPMNA and the special pension, benefits are entirely funded by the Government.

c) Retirement benefits

A contributor who ceases to be a Member of the National Assembly is entitled to benefits without an actuarial reduction at age 60 or to an actuarially reduced pension if he/she is under 60. However, this pension is payable, at the latest, on December 31 of the year in which the contributor turns 69 even if he/she is still a Member of the National Assembly.

The pension is equal to total pension credits calculated annually by multiplying the admissible indemnity received by 1.75%, without exceeding 25 years' participation. These pension credits are indexed to the cost of living increase up until the time the contributor retires.

Any contributor who was an MNA prior to January 1, 1983 and at January 1, 1992, is also entitled to a pension equal to 75% of total contributions credited prior to January 1, 1983, which were not reimbursed and which were indexed since January 1, 1984. This percentage may be lower than 75% if the MAN was not in office at December 31, 1991 and had less than eight years' service.

Contributors acquire the right to SPPMNA benefits the date they acquire the right to a retirement pension under the basic plan. The benefit equals the total of the amounts calculated annually, which corresponds to the surplus of 4% of the total annual compensation over the pension credit calculated according to the PPMNA. Benefits are indexed to the rise in the cost of living until the contributor retires.

The amount of the special pension paid to the widow of Pierre Laporte was set by law.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND PECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

1. DESCRIPTION OF THE PLANS (cont'd)

Pension plan of the members of the National Assembly

Supplemental pension plan for members of the National Assembly

Special Pension Plan (cont'd)

d) Survivor's benefits

Upon the death of a person contributing to the PPMNA or receiving retirement pension benefits, the surviving spouse is entitled to a pension equal to 60% of the pension the deceased was receiving or would have received. Each dependent child is eligible for a pension equal to 10% of this pension or, if no pension is paid to the spouse, to 20% of the pension.

Contributors who, before January 1, 1992, had opted to continue their pension at 50% or 100% in favour of the surviving spouse, the option chosen remains applicable.

The pension paid to the spouse and dependent children, or to the latter alone, cannot exceed the amount of pension the Member was receiving or would have received.

The rules apply to both the basic plan and the SPPMNA.

e) Severance benefits

Under certain conditions, persons who cease to contribute to the PPMNA before being eligible for an immediate pension are entitled to the refund of the actuarial value of the pension.

f) Indexation of benefits

Pension benefits under the PPMNA and SPPMNA are fully indexed to the cost of living increase for that portion of the pension which corresponds to vested service prior to January 1, 1983, and are partially indexed for that portion of the pension which corresponds to vested service after December 31, 1982.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Employee contributions

Adjustments to employee contributions are recorded when the amounts are determined.

3. CAPITALIZATION POLICY

The employee contribution for the fiscal year to the PPMNA is 9% of pensionable earnings. The SPPMNA is not contributory.

Employee contributions are deposited in the Consolidated Revenue Fund. The Act respecting the conditions of employment and the pension plan of the Members of the National Assembly does not oblige the Government to contribute to these plans. However, it must be able to pay out all benefits when they become payable, by taking amounts from the Consolidated Revenue Fund.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. PENSION OBLIGATIONS

In keeping with Canadian generally accepted accounting principles, pension obligations must be determined according to the projected benefit method prorated by service and the most probable assumptions used by the plan administrator.

The assumptions used by CARRA are those deemed most probable by its actuaries in the context of the actuarial valuation of the Government and Public Employees Retirement Plan (RREGOP) prepared using data at December 31, 2002 and presented to the retirement committee on October 15, 2004. Changes have been made to certain assumptions to reflect participants' profiles and the plan's specific provisions. The short-term economic assumptions reflect the data known the date the valuation was tabled.

CARRA actuaries established the actuarial value of accrued benefits for the PPMNA at \$110 986 00 and the SPPMNA at \$51 058 000 as at December 31, 2004 and were estimated at \$110 065 000 and \$67 021 000 respectively as at December 31, 2008.

Change in pension obligations

	<u>2008</u>	<u>2007</u>
PPMNA		
Opening actuarial present value of accrued pension benefits	110 331	111 348
Increase		
Interest	7 350	7 184
Benefits accrued	1 909	2 035
	<u>9 259</u>	<u>9 219</u>
Decrease		
Benefits paid	9 525	10 236
Net decrease for the year	266	1 017
Closing actuarial present value of accrued pension benefits	<u>110 065</u>	<u>110 331</u>
SPPMNA		
Opening actuarial present value of accrued pension benefits	63 073	59 101
Increase		
Interest	4 339	3 960
Benefits accrued	3 098	3 303
	<u>7 437</u>	<u>7 263</u>
Decrease		
Benefits paid	3 489	3 291
Net increase for the year	3 948	3 972
Closing actuarial present value of accrued pension benefits	<u>67 021</u>	<u>63 073</u>
	<u>177 086</u>	<u>173 404</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

4. PENSION OBLIGATIONS (cont'd)**Significant long-term economic assumptions**

The assumptions used in determining the actuarial present value of accrued pension benefits were:

	Long-term rates	Medium-term rates
Inflation	3.50%	
Rate of return net of inflation	4.50%	
Salary escalation rate net of inflation	1.00%	

Medium-term rates represent the average rates for the period 2005 to 2013 while long-term rates represent the rates used as of 2014. The yield-related assumption is determined by presuming that, if these plans were fully capitalized, the amounts would be invested in a portfolio that is identical to that of the cash fund of the Government and Public Employees Retirement Plan (RREGOP).

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

Since the Government has not created a pension fund for these plans, it records, as a liability in the financial statements, an amount established based on the value of benefits promised for which it is responsible, in keeping Canadian generally recognized public-sector accounting policies. This amount corresponds to the accumulation of the pension costs and interest over obligations, minus benefits paid. To this amount are added the amounts deposited for the plans in the Consolidated Revenue Fund.

The pension costs for the plan corresponds to the sum of the cost of accrued benefits, changes to the plan during the year and the amortization of adjustments for estimates resulting from actuarial gains or losses.

The cost of accrued benefits is evaluated in accordance with the accumulated benefit method prorated based on service and the most probable assumptions determined by the Government.

Change in the liability recorded in the Government's financial statements

	2008	2007
Liability recorded in the Government's financial statements as at March 31 of the previous fiscal year	160 447	154 208
Increase		
Contributions recovered	1 158	1 114
Pension costs		
Changes made to the PPMNA		3 683
Current service	4 136	3 975
Past service	1 093	(1 616)
Interest	11 040	10 807
	17 427	17 963
Decrease		
Benefits and administrative expenses paid by the Gouvernement du Québec	13 615	11 724
Net increase	3 812	6 239
Liability recorded in the Government's financial statements as at March 31 of the current fiscal year	164 259	160 447
Estimated liability recorded as at December 31	166 912	162 862

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousands of dollars)

5. LIABILITY RECORDED IN THE GOVERNMENT'S FINANCIAL STATEMENTS (cont'd)

The *Financial Administration Act* (R.S.Q., c. A-6) authorizes the Minister of Finance to create a sinking fund with the Caisse de dépôt et placement du Québec to provide for payment of part or all Government retirement plan benefits. The Government may, in the long term, invest amounts in this fund to a maximum of the amount recorded as a liability in its financial statements under retirement plans, before deduction of the balance of this fund (March 31, 2008: \$62 606 billion).

Sinking fund investments are recognized by the Government at adjusted market value or the difference between the actual yield based on the market value and the projected value amortized over 5 years. At December 31, 2008, the adjusted market value was \$31 994 billion (fair value: \$32 024 billion). The book value of the amortization fund was \$31 764 billion at March 31, 2008 and reflected the amortization of actuarial gains and losses attributable to the use of the interest rate foreseen, which is calculated linearly over the estimated average duration of the remaining active career of pension plan participants.

6. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Pension Plan of the Members of the National Assembly using contributors' profiles as at December 31, 2004 to determine the value of the obligations to be posted to the plan's financial statement. It reveals that, at that date, this value was \$110 986 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE PENSION PLAN OF THE MEMBERS OF THE NATIONAL ASSEMBLY AT DECEMBER 31, 2004
PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING FROM THE PLAN IN
THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 8, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

ACTUARIAL VALUATION

CARRA actuaries performed an actuarial valuation of the Supplemental Pension Plan for the Members of the National Assembly using contributors' profile as at December 31, 2004 in order to determine the value of the obligations to be posted to the plan's financial statement. It reveals that, at that date, this value was \$51 058 000.

ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL OPINION INTEGRAL TO THE ACTUARIAL VALUATION
REPORT FOR THE SUPPLEMENTAL PENSION PLAN FOR THE MEMBERS OF THE NATIONAL ASSEMBLY AT
DECEMBER 31, 2004 PERFORMED FOR THE PURPOSE OF PRESENTING THE VALUE OF OBLIGATIONS RESULTING
FROM THE PLAN IN THE FINANCIAL STATEMENTS

In our opinion,

- the data on which this valuation is based are adequate and reliable;
- the actuarial assumptions used in this valuation comply with recognized actuarial practices;
- the results of this valuation were arrived at in keeping with the requirements of Section 4100 of the CICA (Canadian Institute of Chartered Accountants) Handbook.

We have prepared this report and expressed this opinion in keeping with recognized actuarial practices.

Jean Dessureault, FICA, FSA
Actuary

Alain Jacob, FICA, FSA
Actuary

Québec, February 8, 2007

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

PENSION PLANS OF THE MEMBERS OF THE NATIONAL ASSEMBLY AND SPECIAL PENSION PLAN

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of contributions and benefits of the pension plans of the Members of the National Assembly and of the special pension plan for the year ended December 31, 2008. This financial statement is the responsibility of CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statement is free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the contributions and benefits for these plans for the year ended December 31, 2008, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES
(R.S.Q., c. C-32.1.2)

INCOME AND CUMULATED SURPLUS
for the year ended December 31, 2008
(in thousand of dollars)

	2008	2007 (Note 17)
EXPENSES		
Salaries and fringe benefits	34 083	31 450
Professional fees	12 601	11 685
Communications and transportation	2 967	2 337
Space and equipment rental	3 315	3 131
Equipment	815	804
Office supplies	258	268
Maintenance and repairs	2 070	1 299
Interest on long-term debt	234	228
Financing charges	459	
Other expenses	65	159
Write-off of computer systems development	61	
Amortization of capital assets	2 287	1 876
Amortization of intangible assets	5 007	4 009
	<u>64 222</u>	<u>57 246</u>
REVENUES		
Expenses assumed by the RREGOP		
Employee contributions fund	26 794	23 296
Employer contributions fund	27 044	23 296
Expenses assumed by the PPMP		
Employee contributions fund	1 666	1 780
Employer contributions fund	1 766	1 780
Other plans	6 743	7 046
Other sources	161	233
	<u>64 174</u>	<u>57 431</u>
SURPLUS (DEFICIT) FOR THE YEAR	(48)	185
OPENING CUMULATED SURPLUS	<u>538</u>	<u>353</u>
CLOSING CUMULATED SURPLUS	<u>490</u>	<u>538</u>

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

BALANCE SHEET
as at December 31, 2008
(in thousand of dollars)

	2008	2007 (Note 17)
ASSETS		
Current assets		
Cash on hand	2 568	1 656
Demand deposit to the Caisse de dépôt et placement du Québec – at cost (1.62%)	2 866	3 037
Accounts receivable	67	51
Amount owed by the pension plans (Note 4)	8 944	9 892
Prepaid expenses	23	
	<u>14 468</u>	<u>14 636</u>
Capital assets (Note 5)	91 176	65 901
Amounts owed by the pension plans (Note 4)	9 640	9 655
	<u>100 816</u>	<u>75 556</u>
	<u>115 284</u>	<u>90 192</u>
LIABILITIES		
Current liabilities		
Short-term borrowings (Note 6)	68 575	42 285
Accounts payable and accrued liabilities	9 406	10 749
Provision for vacation time (Note 7)	3 912	3 681
Portion of long-term debt maturing within one year (Note 10)	395	307
	<u>82 288</u>	<u>57 022</u>
Obligation related to sick leave (Note 8)	7 368	7 562
Deferred contributions (Note 9)	20 395	20 257
Long-term debt (Note 10)	4 743	4 813
	<u>114 794</u>	<u>89 654</u>
CUMULATED SURPLUS	490	538
	<u>115 284</u>	<u>90 192</u>
COMMITMENTS (Note 15)		
CONTINGENCIES (Note 16)		

The notes are an integral part of these financial statements.

François Joly, FCA
Chairman of the Board

Jocelyne Dagenais
President-CEO

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

CASH FLOWS
for the year ended December 31, 2008
(in thousand of dollars)

	2008	2007 (Note 17)
OPERATING ACTIVITIES		
Surplus (deficit) for the year	(48)	185
Items not affecting liquid assets		
Amortization of capital assets	2 287	1 876
Amortization of intangible assets	5 007	4 009
Write-off of computer systems development	61	
Amortization of deferred contributions	(5 788)	(5 885)
	1 519	185
Changes in assets and liabilities related to operation		
Accounts receivable	(16)	1 638
Prepaid expenses	(23)	
Owed by the pension plans	963	(3 861)
Accounts payable and accrued liabilities	(1 285)	(3 959)
Deferred contributions – financing from plans	5 926	6 421
Provisions for sick leave and vacation time	37	629
	5 602	868
Cash flows from operating activities	7 121	1 053
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(2 068)	(190)
Acquisition of intangible assets	(30 275)	(25 022)
Cash flows used for investment activities	(32 343)	(25 212)
FINANCING ACTIVITIES		
Short-term borrowing	26 290	24 785
Repayment of the long-term debt	(327)	(281)
Cash flows from financing activities	25 963	24 504
INCREASE IN CASH AND CASH EQUIVALENTS	741	345
OPENING CASH AND CASH-EQUIVALENTS	4 693	4 348
CLOSING CASH AND CASH EQUIVALENTS (Note 12)	5 434	4 693

The notes are an integral part of these financial statements.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(in thousand of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

The Commission administrative des régimes de retraite et d'assurances (CARRA) was established by the *Act respecting the Commission administrative des régimes de retraite et d'assurances* (R.S.Q., c. C-32.1.2) to administer public and parapublic retirement plans and retirement plans or insurance entrusted to it by legislation, the Office of the National Assembly or the Government.

The Board of Directors determines CARRA'S annual budget, which provides for an amount for the administrative costs for the Government and Public Employees Retirement Plan (RREGOP), Pension Plan for Management Personnel (PPMP) and other retirement plans CARRA administers.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Capital assets

Capital assets are reported at cost and amortized over their service life using the straight-line method and a service life of 5 years.

Intangible assets, comprising computer systems and software, are reported at acquisition cost and amortized over their service life using the straight-line method and a service life of 5 to 10 years.

Computer systems being developed are amortized when completed and operating.

Capitalized interest

Interest related to the Global Investment Plan (GIP) is capitalized at project cost until the date of coming into service.

Amortization of long-term assets

Long-term assets are reviewed to determine whether their value has decreased when events or changes in the situation lead one to believe that the book value of an asset might not be recoverable. The depreciation is estimated by comparing the book value of an asset with the net unrealized cash flows foreseen for its use and eventual transfer. If CARRA deems that the value of the assets has decreased, the amount of the depreciation is posted to the fiscal year's charges.

Deferred contributions

Contributions received for the acquisition of amortizable capital assets are deferred and transferred to results using the same method and same rates as for the amortization of the capital assets they are related to.

Accumulated sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by CARRA. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe by employees based on services rendered.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

2. ACCOUNTING POLICIES (cont'd)**Pension plans**

The accounting procedure used for defined contribution plans is applied to inter-enterprise government defined-benefit plans, given that CARRA lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is CARRA's policy to present bank balances and short-term investments maturing within three months of the date they were acquired under cash and cash equivalents.

3. FUTURE CHANGE IN ACCOUNTING POLICIES

The Canadian Institute of Chartered Accountants released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. This new section will apply to fiscal years opening on or after January 1, 2009.

CARRA expects that the application of these new provisions will have a minor impact on its financial statements.

4. AMOUNT OWED BY PENSION PLANS

This amount comprises primarily amounts that can be recovered from pension plans for the provision for vacation time, the obligation related to sick leave and integrated furniture and layouts subject to long-term financing.

5. CAPITAL ASSETS

	2008			2007
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Integrated furniture and layout	9 798	6 456	3 342	4 348
Integrated furniture and layout – GIP	470	69	401	218
Computer equipment	4 164	3 382	782	1 262
Computer equipment - GIP	4 141	325	3 816	3 199
Equipment	74	43	31	9
	<u>18 647</u>	<u>10 275</u>	<u>8 372</u>	<u>9 036</u>
Intangible assets				
Software	1 291	792	499	531
Software – GIP	759	95	664	731
Computer system development	31 432	21 666	9 766	10 286
Computer system development- GIP	15 588	1 052	14 536	
	<u>49 070</u>	<u>23 605</u>	<u>25 465</u>	<u>11 548</u>
Computer systems being developed	2 417		2 417	628
Computer systems being developed - GIP	54 922		54 922	44 689
	<u>57 339</u>		<u>57 339</u>	<u>45 317</u>
	<u>106 409</u>	<u>23 605</u>	<u>82 804</u>	<u>56 865</u>
	<u>125 056</u>	<u>33 880</u>	<u>91 176</u>	<u>65 901</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

5. CAPITAL ASSETS (cont'd)

The cost of capital assets includes an unamortized amount of \$58 503 273 (2007: \$49 475 933), since development work had not been completed and systems were not yet operational at fiscal year-end.

This amount breaks down as:

- Computer system development (GIP): \$54 922 321 (2007: \$44 688 484);
- Computer systems development (other projects): \$2 417 108 (2007: \$628 289);
- Software (GIP): \$105 147 \$ (2007: \$731 194);
- Computer equipment (GIP): \$1 058 697 (2007: \$3 199 487);
- Computer equipment (other projects): \$0 (2007: \$10 826);
- Integrated furniture and layout (GIP): \$0 (2007: \$217 653).

Interest capitalized during the fiscal year totalled \$1 530 746.

CARRA undertook a complete, in-depth modernization of its business processes and its systems, resulting in a GIP proposing a new business vision and new corporate structure. In this context, CARRA presents separately in its financial statements, in the “Capital assets” section, GIP projects, including the renewal and integration of key systems (RISE).

6. SHORT-TERM BORROWINGS

To carry out the GIP, the Gouvernement du Québec authorized CARRA to contract short-term borrowings or borrowings on a credit line until December 31, 2009. The amount of these borrowings is limited to \$87 136 735. On March 24, 2009, the Board of Directors adopted a resolution for setting up a short or long-term borrowing plan that would bring borrowings up to \$113 400 000 until December 31, 2010. CARRA is waiting for the order-in-council to be approved. According to agreements between the parties, the RREGOP and PPMP committed to assuming 93% and 7% respectively of the GIP's computer system development cost. The expenses related to this development are expected to be posted to the RREGOP and PPMP at the rate at which CARRA amortizes them as of the date they become operational. These borrowings are contracted with the Gouvernement du Québec's Financing Fund. The daily interest rate that applies to their balance corresponds to the Canadian bank acceptance rate on the issuing date determined based on the note's maturity date plus 0.05% for issuing and borrowing management costs. At December 31, 2008, CARRA had borrowed \$68 575 000 (\$42 285 000 at December 31, 2007).

7. PROVISION FOR VACATION TIME

	2008	2007
Opening balance	3 681	3 406
Plus		
Expenses for the year	3 179	2 922
Less		
Benefits paid during the year	(2 948)	(2 647)
Closing balance	<u>3 912</u>	<u>3 681</u>

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

8. OBLIGATION RELATED TO SICK LEAVE

During the fiscal year, CARRA changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation increased the value of the obligation by \$225 114 at December 31, 2008. The effect of this change was posted to results.

	2008	2007
Opening balance	7 562	7 208
Plus		
Expenses for the year		
Less	638	1 205
Benefits paid during the year	(832)	(851)
Closing balance	<u>7 368</u>	<u>7 562</u>

The long-term economic assumptions used to determine the obligations' actuarial value are as follows:

Rate of return net of inflation	2.25%
Inflation rate	2.00%
Salary escalation rate net of inflation	0.75%
Discount rate	4.25%

9. DEFERRED CONTRIBUTIONS

	2008	2007
Opening balance	20 257	23 977
Adjustment*		(4 256)
Adjusted balance	20 257	19 721
Deferred contributions for the fiscal year		
Funding from plans	5 926	6 421
Amortization of deferred contributions	(5 788)	(5 885)
Closing balance	<u>20 395</u>	<u>20 257</u>

* The amounts posted to "Deferred contributions for the fiscal year" for fiscal years prior to 2007 were adjusted to normalize GIP acquisitions and their financing by pension plans. The items affected by this adjustment are:

- Deferred contributions: \$4 256 000
- Amount owed by pension plans: (\$4 256 000)

This adjustment does not affect results or the cumulated surplus.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

10. LONG-TERM DEBT

	2008	2007
Borrowings from the Société immobilière du Québec		
Rate of 4.70%, repayable in monthly instalments of \$18 079, maturing April 31, 2021	2 028	2 146
Rate of 4.69%, repayable in monthly instalments of \$6 308, maturing November 30, 2020	690	732
Rate of 4.69%, repayable in monthly instalments of \$11 115, maturing August 31, 2020	1 197	1 272
Rate of 4.69%, repayable in monthly instalments of \$1 781, maturing December 31, 2010	41	60
Rate of 4.48%, repayable in monthly instalments of \$6 909, maturing April 30, 2022	831	876
Rate of 4.48%, repayable in monthly instalments of \$729, maturing March 31, 2012	26	34
Rate of 4.28%, repayable in monthly instalments of \$5 832 maturing September 30, 2013	300	
Rate of 4.28%, repayable in monthly instalments of \$1 288, maturing August 31, 2010	25	
	5 138	5 120
Portion of long-term debt maturing within one year	395	307
	4 743	4 813

Capital payments to be made over the next five fiscal years

2009	395
2010	408
2011	395
2012	406
2013	406
	2 010

11. PENSION PLANS

CARRA staff participates in the Government and Public Employees Retirement Plan, the Pension Plan of Management Personnel and the Civil Service Superannuation Plan, which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

CARRA's contributions charged to the year-end statement totalled \$2 142 689 (2007: \$1 738 561). Its liability towards these Government plans is restricted to its employer contributions.

12. CASH FLOWS

The cash and cash equivalents appearing in the cash flow statement include the following amounts recorded in the balance sheet:

	2008	2007
Cash	2 568	1 656
Demand deposit with the Caisse de dépôt et placement du Québec	2 866	3 037
	5 434	4 693

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

12. CASH FLOWS (cont'd)

The interest paid by CARRA over the fiscal year was \$634 000 (2007: \$228 000).

During the fiscal year, CARRA acquired capital assets at a cost of \$32 630 000 (2007: \$30 543 000), \$5 637 000 (2007: \$5 695 000) of which is included in supplier accounts at December 31, 2008. It also took on a long-term debt of \$345 000 (2007: \$947 000) and a short-term borrowing of \$26 290 000 (2007: \$24 785 000)

13. LOCAL FUND FOR THE RETIREMENT PREPARATION PROGRAM

CARRA has administered a retirement preparation program for Gouvernement du Québec employees. CARRA has been authorized to bill the government departments and agencies for the costs related to meetings and to establish a local fund for this purpose. This financial data is not included in the balance sheet or statement of operations. Fund transactions break down as:

	2008	2007
Opening local fund balance	160	106
Revenue	1 101	993
Expenditure	<u>(1 078)</u>	<u>(939)</u>
Closing local fund balance	<u><u>183</u></u>	<u><u>160</u></u>

14. FINANCIAL INSTRUMENTS

Credit risk

CARRA is not subject to any major credit risk vis-à-vis its accounts receivable and the item "Owed by the pension plans", since almost all of its receivables come from pension plan funds.

Interest-rate risk

Financial assets and liabilities bearing interest at a fixed rate do not expose CARRA to major rate fluctuation risks. For variable-rate financial instruments, each 1% fluctuation in the interest rate on their balance at fiscal year-end causes net results to vary by \$30 000.

Fair value of financial instruments

The fair value of financial instruments in the short term is equivalent to their book value, given that they mature in the near future.

The fair value of the item "Owed by the pension plans" cannot be estimated reliably enough given the lack of market for this type of financial asset.

The fair value of the long-term debt is evaluated using analyses of realized cash flows according to the corresponding current borrowing rate that applies to similar borrowings. The fair value of the long-term debt at December 31, 2008 is \$5 149 305 (2007: \$5 132 650).

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(in thousand of dollars)

15. COMMITMENTS

At December 31, 2008, the contractual commitments for the acquisition of goods and services related to equipment lease contracts and professional fees break down as:

2009	24 956
2010	6 118
2011	<u>993</u>
	<u>32 067</u>

16. CONTINGENCIES

Legal proceedings were instituted against CARRA. The plaintiff questions the call for tender process used to award a contract. The amount claimed is \$825 000 plus interest. However, CARRA is unable to determine the outcome of this file.

17. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**MANAGEMENT'S REPORT**

The financial statements of the Commission administrative des régimes de retraite et d'assurances (CARRA) were prepared by management, which is responsible for the integrity and accuracy of the data presented, including the many amounts necessarily based on judgements and estimates. These financial statements were prepared in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management uses systems of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The internal auditing and risk management department periodically audits different areas of CARRA's operations. This audit includes reviewing and assessing the existence, relevance and adequacy of management's internal accounting controls.

CARRA recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

CARRA actuaries perform an actuarial valuation every three years and an annual estimate of the pension obligations entered in its financial statements in accordance with generally accepted actuarial practices. They report the results of their valuation to CARRA.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Board of Directors is responsible for approving CARRA'S financial statements and annual management report and the financial statements for the retirement plans, except where this duty is entrusted, under legislative or retirement plan provisions, to a retirement committee and where the latter carried it out in the time frame stipulated in said legislation or plan. The auditing committee formed by the Board of Directors examines CARRA's financial statements and those of the retirement plans with the Auditor General of Québec. This committee recommends that the Board of Directors approve CARRA's financial statements and those of the retirement plans, with the exception of the financial statements of retirement plans approved by the retirement committee in question.

The Auditor General of Québec has audited CARRA's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General of Québec may, without restriction, meet with the audit committee to discuss any element concerning the audit.

Jocelyne Dagenais
President-CEO

Marie-France Soucy, CA
Director of Financial and Material Resources

Québec, April 9, 2009

COMMISSION ADMINISTRATIVE DES RÉGIMES DE RETRAITE ET D'ASSURANCES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission administrative des régimes de retraite et d'assurances (CARRA) for the year ended December 31, and the statements of income and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility CARRA management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, CARRA's financial position as at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 24, 2009

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC
(R.S.Q., c. C-33.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009			2008
	Current transactions	Fund to develop and enhance the capital	Total	Total (Adjusted) (Note 2)
REVENUES				
Gouvernement du Québec subsidies (Note 4)	\$15 068 226		\$15 068 226	\$8 238 486
Partners' contributions (Note 5)	1 178 407		1 178 407	1 245 334
Interest	384 077	\$56 529	440 606	325 618
Ticket office and educational activities	414 096		414 096	321 099
Rent	166 783		166 783	157 793
Other	114 942		114 942	36 397
	<u>17 326 531</u>	<u>56 529</u>	<u>17 383 060</u>	<u>10 324 727</u>
EXPENSES				
Financial assistance (Note 6)	334 432	251 467	585 899	420 829
Salaries and fringe benefits	3 175 292		3 175 292	2 688 248
Property and school taxes	1 406 137		1 406 137	937 850
Professional and administrative services	1 725 733	278 895	2 004 628	2 271 771
Transportation and communications	480 634		480 634	319 946
Maintenance and repairs	1 104 681		1 104 681	682 165
Materials and supplies	595 833	69 249	665 082	470 102
Rent	541 495		541 495	465 339
Depreciation of capital assets	3 203 501		3 203 501	449 348
Financial expenses (Note 7)	3 350 382		3 350 382	1 248 053
	<u>15 918 120</u>	<u>599 611</u>	<u>16 517 731</u>	<u>9 953 651</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$1 408 411</u>	<u>\$(543 082)</u>	<u>\$865 329</u>	<u>\$371 076</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

STATEMENT OF CHANGE IN FUND BALANCES
for the year ended March 31, 2009

	2009				2008
	Current transactions		Fund to develop and enhance the capital	Total	Total
	Investments in fixed assets	Fund balance			
OPENING BALANCE	\$1 171 092		\$3 177 529	\$4 348 621	\$3 977 545
Excess (deficiency) of revenues over expenses	(379 910)	\$1 788 321	(543 082)	865 329	371 076
Investments in capital assets	634 655	(634 655)			
	1 425 837	1 153 666	2 634 447	5 213 950	4 348 621
Inter-fund transfer (Notes 3 and 18)		(1 153 666)	1 153 662		
CLOSING BALANCE	<u>\$1 425 837</u>	<u></u>	<u>\$3 788 109</u>	<u>\$5 213 950</u>	<u>\$4 348 621</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009			2008
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total (Adjusted) (Note 2)
ASSETS				
Current assets				
Cash on hand	\$3 575 148	\$2 469 241		\$4 250 455
Accounts receivable and accrued interest (Note 8)	3 324 324	1 718		2 800 166
Inter-fund receivable, interest-free, no repayment terms		1 363 191	\$(1 363 191)	
Gouvernement du Québec subsidies receivable	6 354 470			6 199 520
Contributions receivable (Note 9)	689 768			2 403 023
Prepaid expenses	309 266			316 243
	<u>14 252 976</u>	<u>3 834 150</u>	<u>(1 363 191)</u>	<u>15 969 407</u>
Cash reserved for acquisition of capital assets	5 407 744			12 306 544
Gouvernement du Québec subsidies receivable	75 826 906			80 274 674
Contributions receivable (Note 9)	15 000			35 000
Deferred expenses	84 155			105 026
Capital assets (Note 10)	<u>92 182 188</u>			<u>87 874 226</u>
	<u>\$187 768 969</u>	<u>\$3 834 150</u>	<u>\$(1 363 191)</u>	<u>\$196 564 877</u>

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2009

	2009			2008
	Current transactions	Fund to develop and enhance the capital	Elimination of inter-fund transactions	Total (Adjusted) (Note 2)
LIABILITIES				
Current liabilities				
Suppliers and other payables (Note 12)	\$4 073 298	\$46 037		\$6 448 528
Inter-fund receivable, interest-free, no repayment terms	1 363 191		\$(1 363 191)	
Deferred Gouvernement du Québec subsidies (Note 13)	755 585			457 754
Deferred contributions (Note 14)	252 227			471 538
Portion of debt due next year (Note 15)	6 369 719			6 214 108
	<u>12 814 020</u>	<u>46 037</u>	<u>(1 363 191)</u>	<u>13 591 928</u>
Deferred contributions (Note 14)	18 685			47 386
Long-term debt (Note 15)	75 455 178			80 316 598
Deferred contributions reserved for acquisition of capital assets	7 357 023			11 642 625
Deferred contributions related to capital assets (Note 16)	<u>72 196 361</u>			<u>68 115 854</u>
	<u>167 841 267</u>	<u>46 037</u>	<u>(1 363 191)</u>	<u>173 714 391</u>
EQUITY				
Gouvernement du Québec contribution (Note 17)	18 501 865			18 501 865
Fund balance – Invested in capital assets	1 425 837			1 171 092
Fund to develop and enhance the capital		3 788 113		3 177 529
	<u>19 927 702</u>	<u>3 788 113</u>		<u>22 850 486</u>
	<u>\$187 768 969</u>	<u>\$3 834 150</u>	<u>\$(1 363 191)</u>	<u>\$196 564 877</u>

COMMITMENTS (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Langlois, President and Chief Executive Officer
Julie Suzanne Doyon, President, Auditing Committee

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009		2008
	Current transactions	Fund to develop and enhance the capital	Total
OPERATING ACTIVITIES			
Receipts			
Gouvernement du Québec subsidies	\$17 141 475		\$17 141 475
Partners' and clients' contributions	2 167 771		2 167 771
Inter-fund debt		\$(472 963)	(472 963)
Interest earned	391 171	62 450	453 621
Expenditures			
Suppliers and staff members	(8 857 675)	(608 966)	(9 466 641)
Inter-fund debt	472 963		472 963
Interest paid	(2 629 159)		(2 629 159)
Cash flows provided by (used for) operating activities	8 686 546	(1 019 479)	7 667 067
INVESTMENT ACTIVITIES			
Deposit on acquisition of capital assets			2 089 010
Acquisition of capital assets	(10 995 215)		(10 995 215)
Cash flows used for investment activities	(10 995 215)		(10 995 215)
FINANCING ACTIVITIES			
Cash reserved for the acquisition of capital assets	6 898 800		6 898 800
New long-term debt	1 508 296		1 508 296
Repayment of long-term debt	(6 214 105)		(6 214 105)
Deferred contributions reserved for acquisition of capital assets	(3 962 507)		(3 962 507)
Deferred contributions related to capital assets	6 891 598		6 891 598
Gouvernement du Québec contribution			2 340 034
Cash flows provided by financing activities	5 122 082		5 122 082
INCREASE (DECREASE) IN CASH ON HAND	2 813 413	(1 019 479)	1 793 934
OPENING CASH ON HAND	1 915 401	2 335 054	4 250 455
Inter-fund transfer	(1 153 666)	1 153 666	
CLOSING CASH ON HAND	<u>\$3 575 148</u>	<u>\$2 469 241</u>	<u>\$6 044 389</u>

Capital assets totalling \$1 509 344 (2008: \$5 063 357) are included under "Suppliers and other payables".

Deferred contributions for capital asset acquisitions include "Accounts receivable and accrued interest" and contributions receivable of \$3 250 819 (2008: \$2 673 915) and \$150 000 (2008: \$1 050 000) respectively.

The notes are an integral part of these financial statements.

COMMISSION DE LA CAPITALE NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Commission de la capitale nationale du Québec (Commission) is a legal person established under the *Act respecting the National Capital Commission* (R.S.Q., c. C-33.1) to:

- contribute to the planning of and improvement to the major buildings and equipment which characterize a capital;
- establish squares, parks and gardens and promenades and erect monuments and works of art;
- support the improvement of the quality of architecture and the landscape;
- support the preservation, improvement and accessibility of squares, parks and gardens, promenades and public thoroughfares, and of historic sites, works, monuments and property enhancing or giving prestige to the capital;
- support the work designed to improve access to the capital;
- support the organization and promotion of activities and events of a historical, cultural and social nature that give prominence to the capital.

The Commission advises the Government on:

- the location of government offices and departments or other government bodies and their employees;
- the construction, preservation, planning and development of buildings housing government offices and departments or other government bodies in the territory of the Communauté métropolitaine de Québec;
- the layout, in the territory of the Communauté métropolitaine de Québec, of transport and communications infrastructures providing access to the capital, the designation of ceremonial routes, the location of diplomatic missions and international organizations, and the conditions applicable to international presence;
- the planning and development of the territory of the Communauté métropolitaine de Québec and of the territory of local municipalities and regional county municipalities forming part of the Communauté métropolitaine de Québec.

Under section 984 of the *Québec Taxation Act* and section 149 of the *Canadian Income Tax Act*, the Commission does not pay income tax.

2. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, at the Government's request, the Commission has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The impacts of changing accounting framework are disclosed below.

The financial statements for past fiscal year were adjusted to reclassify cultural property into the respective capital asset categories. These capital assets, as well as the related deferred contributions, were amortized retroactively to their acquisition date. The retroactive application of this change increased (decreased) the following financial statement items at March 31, 2008. These changes did not affect the Commission's fund balances.

Operations

Gouvernement du Québec subsidies	\$94 906
Depreciation of capital assets	94 906

Assets

Capital assets	(506 166)

Liabilities

Deferred contributions related to capital assets	1 391 956

Equity

Gouvernement du Québec contribution	(1 898 122)

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES

To prepare its financial statements, the Commission gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management has used estimates and assumptions is the service life of capital assets. Real results may differ from these estimates.

Fund accounting

Under the *Act respecting the National Capital Commission*, the sums received by the Commission must be used to discharge its obligations and the balance paid into a fund to develop and enhance the capital. The Government has authorized the use of the fund for this purpose.

Revenue reporting

The Commission uses the deferral method to record contributions. Contributions are reported in the fiscal year in which the related charges were incurred. The contributions of non-restricted partners are reported as proceeds when received or receivable if the amount can be reasonably estimated and if it is relatively certain that it will be received.

Gouvernement du Québec subsidies receivable

Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which the Commission obtained the funding or carried out the work entitling it to these subsidies.

Financial assistance

Financial assistance is posted to charges when the facts giving rise to it occur, inasmuch as it was authorized and the beneficiaries met the eligibility criteria, where applicable.

Deferred expenses

Deferred expenses comprise long-term debt issuing and management costs. Amortization is calculated using the straight-line method over the duration of the debt it is related to.

Capital assets

Capital assets are recorded at acquisition cost. For parks development, the cost includes interest on the long-term debt incurred over the development period. The amortization is calculated using the following methods:

	Method	Rate
Buildings	Straight-line	5%
Computer equipment	Straight-line	33 1/3%
Office furniture and equipment	Diminishing balance	20%
Street furniture	Straight-line	10%
Leasehold improvements	Straight-line	20%
Automotive equipment	Straight-line	33 1/3%
Parks development	Straight-line	20%
Promenade development	Straight-line	5%

The development under way had not been amortized.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES (cont'd)

Capital assets (cont'd)

Works of art, including sculptures and monuments, have been posted to expenses for the fiscal year in which they are obtained.

When the situation indicates that a capital asset no longer contributes to the Commission's capacity to provide services or if the value of the capital asset's future economic benefits is less than its book value, its cost is reduced to reflect this decline. Net capital asset-related losses are posted to results. No recovery is reported.

Deferred contributions related to capital assets

Contributions for capital assets are recognized as deferred contributions and are transferred to operations on the basis of the amortization of the capital assets to which they are related.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2009	2008 (Adjusted) (Note 2)
Ministère de la Santé et des Services sociaux		
Operations	\$8 831 324	\$6 890 987
Repayment of interest on the long-term debt	3 293 324	1 185 516
Specific projects		
Fontaine de Tourny		31 674
Promenade Samuel-De Champlain	394 895	
Amortization of deferred contributions related to capital assets	2 517 200	94 906
Ministère de la Culture, des Communications et de la Condition féminine		
Repayment of interest on long-term debt	31 483	35 403
	<u>\$15 068 226</u>	<u>\$8 238 486</u>

5. PARTNERS' CONTRIBUTIONS

	2009	2008
Québec City	\$37 151	\$224 829
Société des établissements de plein air du Québec	133 495	833 531
Ministère de l'Éducation	15 000	20 000
Société immobilière du Québec		15 000
Assemblée nationale		10 384
Société du Grand Théâtre de Québec		3 750
Secrétariat de l'Ordre national du Québec	6 282	3 260
Ministère des Transports	24 243	
Ministère de la Culture, des Communications et de la Condition féminine	8 349	
Other	660 196	134 580
	<u>884 716</u>	<u>1 245 334</u>
Amortization of deferred contributions related to capital assets	293 691	
	<u>\$1 178 407</u>	<u>\$1 245 334</u>

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. FINANCIAL ASSISTANCE**

	2009	2008
Québec schools	\$133 205	\$108 174
Caisse de dépôt et placement du Québec	100 000	100 000
Télé-Québec		40 000
Other	352 694	172 655
	<u>\$585 899</u>	<u>\$420 829</u>

7. FINANCIAL EXPENSES

	2009	2008
Interest on long-term debt	\$3 327 242	\$1 224 272
Amortization of deferred expenses	20 872	20 872
Other interest	2 268	2 909
	<u>\$3 350 382</u>	<u>\$1 248 053</u>

8. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2009	2008
Ville de Québec	\$2 383 631	\$1 851 221
Ministère des Transports *	860 265	816 044
Société des établissements de plein air du Québec *	47 994	55 892
Interest – current transactions	6 434	49 551
Interest – Fund to develop and enhance the capital	1 718	7 639
Other	26 000	19 819
	<u>\$3 326 042</u>	<u>\$2 800 166</u>

* At March 31, 2009, \$908 259 represented accounts receivable from jointly-controlled entities (2008: \$871 936).

9. CONTRIBUTIONS RECEIVABLE

	2009	2008
Ville de Québec	\$138 589	\$489 459
Société des établissements de plein air du Québec *	237 178	897 230
Ministère des Relations internationales *	100 000	
Caisse de dépôt et placement du Québec *		750 000
Ministère de l'Éducation, du Loisir et du Sport	15 000	30 000
Ministère des Transports *	24 243	
Other	189 758	271 334
	<u>704 768</u>	<u>2 438 023</u>
Contributions payable in the coming fiscal year	<u>(689 768)</u>	<u>(2 403 023)</u>
	<u>\$15 000</u>	<u>\$35 000</u>

* At March 31, 2009, \$367 421 represented the amount of contributions receivable from jointly-controlled entities (2008: \$1 677 230).

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

10. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net (Adjusted) (Note 2)
Land	\$18 501 864		\$18 501 864
Parc du Bois-de-Coulonge	1		1
Parc de l'Amérique-Française	1		1
Parc du Cavalier-du-Moulin	1		1
Parc de la Francophonie	1		1
Parc de l'Amérique-Latine	1		1
Domaine Cataract	1		1
Buildings	7 638 222	\$807 370	6 830 852
Computer equipment	632 561	523 605	108 956
Office furniture and equipment	643 727	370 389	273 338
Street furniture	847 905	63 593	784 312
Leasehold improvements	289 318	192 086	97 232
Automotive equipment	79 124	42 594	36 530
Parks development	5 600 468	4 871 385	729 083
Promenade development	63 508 155	2 381 556	61 126 599
Current development	3 693 416		3 693 416
	<u>\$101 434 766</u>	<u>\$9 252 578</u>	<u>\$92 182 188</u>
			<u>\$87 874 226</u>

Interest of \$3 942 195 (2008: \$3 074 186) was capitalized to development in progress.

On June 24, 2008, developments under way totalling \$69 921 878 were completed and transferred to other capital asset categories.

During the fiscal year, three works of art were completed in relation to the Samuel-De Champlain promenade project for \$478 422. One, *Là où la terre fait danser les mâts*, falls under the policy for integration of artwork into architecture and the environment of Government and public buildings and sites. The other two, *Structures de vent* and *Plonger*, were completed through private-sector financial contributions.

11. CREDIT FACILITIES

The Commission has an unused bank borrowing of \$500 000 underwritten by the Gouvernement du Québec, renewable on November 30, 2009 and bearing interest at the prime rate. At March 31, 2009, the interest rate was de 2.5%.

12. SUPPLIERS AND OTHER PAYABLES

	2009	2008
Suppliers – current operations	\$2 522 020	\$4 847 610
Suppliers – Fund to develop and enhance the capital	46 037	55 392
Salaries and fringe benefits	84 733	75 543
Vacation time payable (Note 20)	336 026	264 397
Sick leave payable (Note 20)	41 418	36 788
Interest payable on long-term debt	1 089 101	1 168 798
	<u>\$4 119 335</u>	<u>\$6 448 528</u>

At March 31, 2009, \$613 771 represented amounts payable to related parties (2008: \$159 705).

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

Deferred Gouvernement du Québec subsidies presented in the current operating fund correspond to subsidies received in the fiscal years under consideration and destined to cover the subsequent fiscal year's expenses. Changes in the deferred subsidies are:

	2009	2008
Opening balance	\$457 754	\$905 986
Subsidies received in the fiscal year	618 011	661 734
	1 075 765	1 567 720
Subsidies recorded as revenue for the fiscal year	(320 180)	(1 109 966)
Closing balance	<u>\$755 585</u>	<u>\$457 754</u>

14. DEFERRED CONTRIBUTIONS

The deferred contributions presented in the current operating fund correspond to contributions received in the fiscal years under consideration and destined to cover the expenses of future fiscal years. Changes in the deferred contributions are:

	2009	2008
Opening balance	\$518 924	\$288 834
Contributions received during the fiscal year	202 812	577 588
	721 736	866 422
Contributions recorded as revenue for the fiscal year	(450 824)	(347 498)
Closing balance	270 912	518 924
Contributions destined to cover expenses for the next fiscal year	(252 227)	(471 538)
	<u>\$18 685</u>	<u>\$47 386</u>

At March 31, 2009, \$134 971 represented deferred contributions from jointly-controlled entities (2008: \$64 601).

15. LONG-TERM DEBT

	2009	2008
Borrowings on note from the Gouvernement du Québec's Financing Fund, guaranteed by the Gouvernement du Québec:		
5.37% repayable in half-yearly instalments of \$171 198 on the principal of the borrowing and a final instalment of \$2 225 779 on December 1, 2010 *	\$2 739 174	\$3 081 571
6.06% repayable in half-yearly instalments of \$345 842 on the principal of the borrowing, maturing on December 1, 2010 *	1 383 368	2 075 052
6.06% repayable in half-yearly instalments of \$103 333 on the principal of the borrowing and a final instalment of \$1 343 333 on December 1, 2010 *	1 653 333	1 860 000
Amounts carried forward	<u>\$5 775 875</u>	<u>\$7 016 623</u>

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**15. LONG-TERM DEBT** (cont'd)

	2009	2008
Borrowings on note from the Gouvernement du Québec's Financing Fund, guaranteed by the Gouvernement du Québec (cont'd):		
Amounts brought forward	\$5 775 875	\$7 016 623
6.06% repayable in half-yearly instalments of \$42 000 on the principal of the borrowing and a final instalment of \$1 386 000 on December 1, 2010 *	1 512 000	1 596 000
6.09%, repayable in half-yearly instalments of \$112 205 on the principal of the borrowing and a final instalment of \$2 244 109 on October 1, 2012 *	3 029 547	3 253 958
4.59%, repayable in half-yearly instalments of \$81 866, maturing on December 1, 2016 *	1 309 861	1 473 594
5.64%, repayable in half-yearly instalments of \$318 623 on the principal of the borrowing, maturing on January 16, 2018 *	5 735 218	6 372 464
4.8%, repayable in half-yearly instalments of \$415 827, on the principal of the borrowing, maturing on March 31, 2026 *	14 138 105	14 969 758
4.6%, repayable in half-yearly instalments of \$641 122, on the principal of the borrowing, maturing on June 1, 2025 *	21 157 026	22 439 270
5.05%, repayable in half-yearly instalments of \$747 050, on the principal of the borrowing, maturing on December 1, 2025 *	25 399 711	26 893 812
4.4%, repayable in half-yearly instalments of \$82 395, on the principal of the borrowing, maturing on December 1, 2018 *	1 647 899	1 812 689
3.9% repayable in half-yearly instalments of \$75 415 on the principal of the borrowing and a final instalment of \$452 488 on June 1, 2015 *	1 508 296	
Borrowings guaranteed by the Ministère de la Culture, des Communications et de la Condition féminine:		
5.25%, repayable in monthly instalments of \$9 030, principal and interest, renewable on April 5, 2010, maturing on April 5, 2015 *	563 250	639 840
Borrowing from the Société immobilière du Québec:		
4.5 %, repayable in monthly instalments of \$1 423, principal and interest, maturing on March 31, 2012	48 109	62 698
	81 824 897	86 530 706
Portion maturing in the next fiscal year	(6 369 719)	(6 214 108)
	<u>\$75 455 178</u>	<u>\$80 316 598</u>
Capital payments for the next five fiscal years are:		
2010		\$6 369 719
2011		11 410 612
2012		4 965 933
2013		7 080 911
2014		4 724 597

* Capital payments on these borrowings are made annually from Gouvernement du Québec subsidies slated for this purpose.

COMMISSION DE LA CAPITAL NATIONALE DU QUÉBEC

NOTES THE TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

16. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets include Gouvernement du Québec subsidies and partners' contributions and correspond to development under way. Contributions break down as follows:

	2009	2008 (Adjusted) (Note 2)
Opening balance	\$68 115 854	\$33 522 666
Subsidy and contributions received during the fiscal year	6 891 398	34 688 094
	75 007 252	68 210 760
Amortization of deferred contributions	(2 810 891)	(94 906)
Closing balance	<u>\$72 196 361</u>	<u>\$68 115 854</u>

17. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The amount of the Gouvernement du Québec contribution corresponds to the cost of land funded by long-term borrowings whose capital payments are covered by Gouvernement du Québec subsidies. The contribution breaks down as follows:

	2009	2008 (Adjusted) (Note 2)
Land	\$18 501 865	\$18 501 865

18. INTER-FUND TRANSFER

The amount \$1 153 666 represents surpluses received by the Commission which, according to its incorporating act, must be paid into the Fund to develop and enhance the capital.

19. COMMITMENTS

The Commission is committed to financially supporting various projects aimed at enhancing and promoting the capital and promoting cultural activities and events that give prominence to the capital. At March 31, 2009, the Commission had commitments until 2012 totalling \$2 748 185 (2008: \$5 764 000).

The minimum amounts payable in the next three fiscal years are:

2010	\$2 236 789
2011	334 001
2012	177 395

20. FUTURE FRINGE BENEFITS**Pension Plan**

Commission staff participates in the Pension Plan of Management Personnel (PPMP) and Government and Public Employees Retirement Plan (RREGOP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The Commission's liability towards these Government plans is restricted to its employer contributions. Its contributions charged to the year-end statement total \$195 364 (2008: \$148 522).

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

20. FUTURE FRINGE BENEFITS (cont'd)**Provision for vacation time and sick leave (Note 12)**

	2009		2008	
	Sick leave	Vacation time	Sick leave	Vacation time
Opening balance	\$36 788	\$264 397	\$29 082	\$213 402
Expenses for the fiscal year	62 271	364 225	49 651	288 953
Benefits paid during the fiscal year	(57 641)	(292 596)	(41 945)	(237 958)
Closing balance	<u>\$41 418</u>	<u>\$336 026</u>	<u>\$36 788</u>	<u>\$264 397</u>

21. ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

The book value of short-term assets and liabilities and cash on hand reserved for the acquisition of capital assets corresponds to a reasonable estimate of their fair value, given that they mature in the short term.

The fair value of the long-term debt are determined by capitalizing future cash flows at capitalization rates representing the rates the Commission might incur on the date of the financial statement for borrowings with similar conditions and maturity dates.

The fair value of contributions receivable cannot be estimated, given the absence of a market for this type of financial instrument.

The following table shows the book value and fair value of the other financial instruments.

	2009		2008	
	Book value	Fair value	Book value	Fair value
Long-term debt				
Borrowings from the Financing Fund	\$81 213 538	\$90 353 487	\$85 828 168	\$88 776 442
Borrowings guaranteed by the Ministère de la Culture, des Communications et de la Condition féminine	563 250	570 756	639 840	646 700
Borrowing from the Société immobilière du Québec	48 109	48 109	62 698	62 698

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Commission did not do business with related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements. Capital asset purchases and sales between related parties are recorded at the assignor's book value and disclosed in Note 10.

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Commission de la capitale nationale du Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Commission's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Jacques Langlois,
President and Chief Executive Officer

Hélène Turcotte,
Director, Administrative Affairs

Québec, June 22, 2009

COMMISSION DE LA CAPITALÉ NATIONALE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission de la capitale nationale du Québec as at March 31, 2009 and the statements of operations, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 2, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 22, 2009

COMMISSION DE LA CONSTRUCTION DU QUÉBECR.S.Q., c. R-20
GENERAL FUNDSTATEMENT OF OPERATIONS AND CHANGE IN EQUITY
for the year ended December 31, 2008
(in thousands of dollars)

	2008	2007
REVENUES		
Levies	68 060	60 679
Service fees	7 733	7 197
Fines	1 686	1 392
Optional participation	885	843
Transfer of compensation for annual vacations, paid holidays and unidentified or unpaid claims	284	173
Investment income	2 671	3 035
Investment rent and other	1 674	1 002
	<u>82 993</u>	<u>74 321</u>
EXPENSES		
Employee remuneration and personnel management (Note 13)	78 713	81 781
Administrative expenses	17 140	14 511
Office space	4 050	3 589
Amortization of capital assets	2 152	2 335
Amortization of intangible assets	1 011	1 421
Public relations and other	1 417	1 410
Contribution to the Construction Industry Commissioner's Fund and to the Commission des relations de travail	1 130	948
Expenses before the following items	105 613	105 995
Transfers from supplemental pension and insurance plans	(21 769)	(22 141)
Transfers from the Training Fund and the Training Plan	(2 075)	(1 807)
Transfer of interest from the Holiday and Vacation Pay Fund	(3 310)	(4 139)
Gouvernement du Québec subsidies	(7 662)	(7 932)
	<u>70 797</u>	<u>69 976</u>
EXCESS OF REVENUES OVER EXPENSES	12 196	4 345
OPENING EQUITY	<u>49 552</u>	<u>45 207</u>
CLOSING EQUITY	<u><u>61 748</u></u>	<u><u>49 552</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND****BALANCE SHEET**

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 5.1)	28 282	79 716
Investment and accrued revenue (Note 5.1)	60 013	
Levies receivable	6 190	6 820
Accounts receivable	2 418	1 511
Prepaid expenses	609	1 622
	<u>97 512</u>	<u>89 669</u>
Capital assets (Note 6.1)	20 078	20 156
Intangible assets (Note 6.1)	3 280	3 520
Asset for benefits accrued under future fringe benefits (Note 13)	<u>23 180</u>	<u>19 755</u>
	<u>144 050</u>	<u>133 100</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	16 427	23 605
Deferred Gouvernement du Québec subsidies	2 275	1 879
Deferred revenue	291	296
	<u>18 993</u>	<u>25 780</u>
Liability for benefits accrued under future fringe benefits (Note 13)	<u>63 309</u>	<u>57 768</u>
	<u>82 302</u>	<u>83 548</u>
EQUITY	<u>61 748</u>	<u>49 552</u>
	<u>144 050</u>	<u>133 100</u>
COMMITMENTS (Note 11)		
CONTINGENCIES (Note 12)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**GENERAL FUND**
STATEMENT OF CASH FLOWS
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Excess of revenue over expenditure	12 196	4 345
Adjustments for:		
Amortization of capital assets	2 152	2 335
Amortization of intangible assets	1 011	1 421
Loss on sale of capital assets	13	44
Increase in benefits accrued under future fringe benefits	<u>2 116</u>	<u>7 554</u>
	17 488	15 699
Net change in non-cash items of the Working Capital Fund (Note 8.1)	<u>(6 051)</u>	<u>10 081</u>
	<u>11 437</u>	<u>25 780</u>
INVESTMENT ACTIVITIES		
Net change in investments	(60 013)	27 706
Acquisition of capital assets	(2 087)	(13 179)
Acquisition of intangible assets	<u>(771)</u>	<u>(1 057)</u>
	<u>(62 871)</u>	<u>13 470</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(51 434)	39 250
OPENING CASH AND CASH EQUIVALENTS	<u>79 716</u>	<u>40 466</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 5.1)	<u><u>28 282</u></u>	<u><u>79 716</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FUND****STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**

as at December 31, 2008

(in thousands of dollars)

	2008				2007
	General account	Comple- mentary account	Pensioners' account	Total	Total
ASSETS					
Investments					
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 5.2)	2 984 151	2 564 454	4 268 662	9 817 267	11 740 174
Cash and cash equivalents (Note 5.1)	(248)	2 062	15 256	17 070	44 613
Investments and accrued revenue (Note 5.1)	673	4 345	32 196	37 214	
	<u>2 984 576</u>	<u>2 570 861</u>	<u>4 316 114</u>	<u>9 871 551</u>	<u>11 784 787</u>
Accounts receivable					
Employee contributions receivable	40	18 489		18 529	21 140
Employer contributions receivable	22 374	12 447		34 821	41 234
General account transfer receivable			38 148		
Complementary account transfer receivable			15 350		
	<u>3 006 990</u>	<u>2 601 797</u>	<u>4 369 612</u>	<u>9 924 901</u>	<u>11 847 161</u>
LIABILITIES					
Accounts payable	4 639	989		5 628	1 473
Contributions repayable after retirement		30 989		30 989	26 461
Pensions and lump-sum benefits payable	6 450	3 284	1 946	11 680	11 690
Transfers to the pensioners' accounts	38 148	15 350			
	<u>49 237</u>	<u>50 612</u>	<u>1 946</u>	<u>48 297</u>	<u>39 624</u>
NET ASSETS AVAILABLE FOR BENEFITS (Note 9)	<u>2 957 753</u>	<u>2 551 185</u>	<u>4 367 666</u>	<u>9 876 604</u>	<u>11 807 537</u>

COMMITMENTS (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

SUPPLEMENTAL PENSION PLAN FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 2008

(in thousands of dollars)

	2008				2007
	General account	Comple- mentary account	Pensioners' account	Total	Total
INCREASE IN ASSETS					
Employee contributions (Note 9.3)	658	242 640		243 298	218 972
Employer contributions (Note 9.3)	287 418	173 780		461 198	417 335
Contributions after retirement		30 675		30 675	26 169
Investment income	154 315	120 399	215 254	489 968	475 006
Unrealized net gain on investments					115 186
Transfer from the general account			422 239		
Transfer from the complementary account			136 328		
	<u>442 391</u>	<u>567 494</u>	<u>773 821</u>	<u>1 225 139</u>	<u>1 252 668</u>
DECREASE IN ASSETS					
Lump-sum benefits and contribution refunds	32 480	15 005	541 579	589 064	554 390
Repayment of hours after retirement		30 759		30 759	28 014
Unrealized net loss on investments	789 097	614 037	1 107 355	2 510 489	
Charge of administrative expenses by the General Fund	21 292	192		21 484	21 882
Transfer of unclaimed property at the Ministère du Revenu	4 000			4 000	
Transfers to the pensioners' accounts	422 239	136 328			
Administrative expenses	<u>276</u>			<u>276</u>	<u>244</u>
	<u>1 269 384</u>	<u>796 321</u>	<u>1 648 934</u>	<u>3 156 072</u>	<u>604 530</u>
INCREASE (DECREASE) IN NET ASSETS	(826 993)	(228 827)	(875 113)	(1 930 933)	648 138
OPENING NET ASSETS AVAILABLE FOR BENEFITS	<u>3 784 746</u>	<u>2 780 012</u>	<u>5 242 779</u>	<u>11 807 537</u>	<u>11 159 399</u>
CLOSING NET ASSETS AVAILABLE FOR BENEFITS	<u><u>2 957 753</u></u>	<u><u>2 551 185</u></u>	<u><u>4 367 666</u></u>	<u><u>9 876 604</u></u>	<u><u>11 807 537</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**INSURANCE PLANS FUND**
BALANCE SHEET
 as at December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>Basic insurance plans fund</u>		<u>Supplemental insurance plans fund</u>		<u>Total</u>	
ASSETS						
Cash and cash equivalents (Note 5.1)	21 813	68 116	984	4 316	22 797	72 432
Investments and accrued revenue (Note 5.1)	530 434	483 763	41 475	42 233	571 909	525 996
Employer contributions receivable	20 015	23 817	2 211	1 956	22 226	25 773
Assets related to derivative financial instruments (Note 14)	<u>609</u>	<u>1 137</u>	<u>50</u>	<u>99</u>	<u>659</u>	<u>1 236</u>
	<u>572 871</u>	<u>576 833</u>	<u>44 720</u>	<u>48 604</u>	<u>617 591</u>	<u>625 437</u>
LIABILITY						
Accounts payable	10 324	5 932	14	21	10 338	5 953
Contributions collected in advance for eventual coverage	152 573	132 062	9 788	8 699	162 361	140 761
Deferred voluntary employee contributions	11 830	10 994			11 830	10 994
Deferred employer contributions	205 352	193 235	11 399	10 480	216 751	203 715
Actuarial liabilities (Note 10)	<u>74 573</u>	<u>70 998</u>			<u>74 573</u>	<u>70 998</u>
	454 652	413 221	21 201	19 200	475 853	432 421
EQUITY (Note 16)	<u>118 219</u>	<u>163 612</u>	<u>23 519</u>	<u>29 404</u>	<u>141 738</u>	<u>193 016</u>
	<u>572 871</u>	<u>576 833</u>	<u>44 720</u>	<u>48 604</u>	<u>617 591</u>	<u>625 437</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

INSURANCE PLANS FUND

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	Basic insurance plans fund		Supplemental insurance plans fund		Total	
INCREASE IN ASSETS						
Employer contributions	232 530	221 602	11 617	11 229	244 147	232 831
Optional employee contributions	22 378	19 326			22 378	19 326
Premium received from supplemental insurance plans	11 396	10 351				
Investment income	4 721	34 205	468	3 093	5 189	37 298
Added value of derivative financial instruments		2 297		212		2 509
	<u>271 025</u>	<u>287 781</u>	<u>12 085</u>	<u>14 534</u>	<u>271 714</u>	<u>291 964</u>
DECREASE IN ASSETS						
Insurance premiums paid to basic plans			11 396	10 351		
Expenses charged by the General Fund			285	259	285	259
Claims	233 079	218 112			233 079	218 112
Tax on capital	5 738	5 096	269	251	6 007	5 347
Management fees for claims and premiums	3 070	2 734			3 070	2 734
Unrealized net loss on investments	70 428	33 354	5 971	3 028	76 399	36 382
Increase in actuarial liabilities	3 575	177			3 575	177
Decline in value of derivative financial instruments	528		49		577	
	<u>316 418</u>	<u>259 473</u>	<u>17 970</u>	<u>13 889</u>	<u>322 992</u>	<u>263 011</u>
INCREASE (DECREASE) IN EQUITY	(45 393)	28 308	(5 885)	645	(51 278)	28 953
OPENING EQUITY	<u>163 612</u>	<u>135 304</u>	<u>29 404</u>	<u>28 759</u>	<u>193 016</u>	<u>164 063</u>
CLOSING EQUITY	<u>118 219</u>	<u>163 612</u>	<u>23 519</u>	<u>29 404</u>	<u>141 738</u>	<u>193 016</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS**

REVENUES AND CHANGES IN EQUITY
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
REVENUES		
Employer contributions	21 311	19 732
Investment income		11 072
Added value of derivative financial instruments		931
Amortization of subsidy for reuseable training materials	<u>18</u>	<u>15</u>
	<u>21 329</u>	<u>31 750</u>
EXPENSES		
Training activities	12 312	14 333
Incentives paid to clients	8 381	8 421
Amortization of reusable training materials	299	334
Loss on transfer of reusable training materials		102
Contribution to CGUFF	2 478	1 875
Transfer to General Fund	1 653	1 418
Investments loss	4	
Decline in value of derivative financial instruments	227	
Unrealized net loss on investments	<u>22 033</u>	<u>11 998</u>
	<u>47 387</u>	<u>38 481</u>
EXCESS OF EXPENSES OVER REVENUES	(26 058)	(6 731)
OPENING EQUITY	<u>161 244</u>	<u>167 975</u>
CLOSING EQUITY	<u>135 186</u>	<u>161 244</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND – WORK SECTORS**
BALANCE SHEET
 as at December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 5.1)	2 308	6 987
Investments and accrued revenue (Note 5.1)	128 967	149 645
Employer contributions receivable	1 541	1 836
Accounts receivable	42	83
Prepaid expenses	2 622	2 460
Assets related to derivative financial instruments (Note 14)	<u>185</u>	<u>413</u>
	135 665	161 424
Reusable training materials (Note 6.2)	<u>818</u>	<u>1 092</u>
	<u><u>136 483</u></u>	<u><u>162 516</u></u>
LIABILITIES		
Current liabilities		
Training activities payable	1 233	1 190
Deferred subsidy	<u>64</u>	<u>82</u>
	1 297	1 272
EQUITY	<u>135 186</u>	<u>161 244</u>
	<u><u>136 483</u></u>	<u><u>162 516</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR**
STATEMENT OF OPERATIONS AND CHANGES IN EQUITY
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
REVENUES		
Employer contributions	6 066	5 412
Investment income		2 096
Added value of derivative financial instruments		167
Amortization of subsidy for reuseable training materials	<u>4</u>	<u>3</u>
	<u>6 070</u>	<u>7 678</u>
EXPENSES		
Training activities	2 556	2 371
Incentives paid to clients	2 549	2 034
Incentives paid to referred clients	3	126
Amortization of reusable training materials	31	33
Loss on transfer of reusable training materials		3
Contribution to the Training Plan committee	803	401
Transfers to General Fund	422	389
Loss Investments	10	
Decline in value of derivative financial instruments	43	
Unrealized net loss on investments	<u>4 062</u>	<u>2 311</u>
	<u>10 479</u>	<u>7 668</u>
EXCESS OF REVENUES OVER EXPENSES		
(EXPENSES OVER REVENUES)	(4 409)	10
OPENING EQUITY	<u>30 052</u>	<u>30 042</u>
CLOSING EQUITY	<u><u>25 643</u></u>	<u><u>30 052</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**TRAINING PLAN FUND - RESIDENTIAL SECTOR**
BALANCE SHEET
 as at December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 5.1)	97	716
Investments and accrued revenue (Note 5.1)	23 799	27 318
Employer contributions receivable	406	478
Accounts receivable	313	82
Prepaid expenses	1 250	1 645
Assets related to derivative financial instruments (Note 14)	<u>35</u>	<u>78</u>
	25 900	30 317
Reusable training materials (Note 6.2)	<u>90</u>	<u>113</u>
	<u>25 990</u>	<u>30 430</u>
LIABILITIES		
Current liabilities		
Training activities payable	333	360
Deferred subsidy	<u>14</u>	<u>18</u>
	347	378
EQUITY	<u>25 643</u>	<u>30 052</u>
	<u>25 990</u>	<u>30 430</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	58 640	158 562
Investments and accrued revenue (Note 5.1)	186 399	53 065
Compensation receivable from employers	34 895	39 486
Assets related to derivative financial instruments (Note 14)	50	93
Unrealized net loss on investments	<u>3 167</u>	<u></u>
	<u>283 151</u>	<u>251 206</u>
LIABILITIES		
Accounts payable	1 500	1 205
Compensation payable to employees	278 348	241 704
Investment income on employee compensation payable	3 303	6 039
Unrealized net gain on investments	<u></u>	<u>2 258</u>
	<u>283 151</u>	<u>251 206</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**HOLIDAY AND VACATION PAY FUND**
STATEMENT OF CHANGE IN ASSETS
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE		
Compensation collected	494 740	426 005
Investment income	9 236	12 447
Increase of accounts payable	<u>295</u>	<u></u>
	<u>504 271</u>	<u>438 452</u>
DECREASE		
Added value (Decline in value) of derivative financial instruments	43	(215)
Payment of compensation to employees	457 921	404 832
Investment income on compensation paid to employees	8 600	7 792
Transfers to the general interest income administration fund	3 310	4 139
Transfers to the general unidentified or unclaimed compensation administration fund	194	135
Unrealized loss on investments	2 258	2 801
Decrease in accounts payable	<u></u>	<u>17</u>
	<u>472 326</u>	<u>419 501</u>
INCREASE IN ASSETS AND LIABILITIES	31 945	18 951
OPENING ASSETS AND LIABILITIES	<u>251 206</u>	<u>232 255</u>
CLOSING ASSETS AND LIABILITIES	<u><u>283 151</u></u>	<u><u>251 206</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	18	1 215
Investments and accrued revenue (Note 5.1)	820	
Employer claims receivable	1 772	1 975
Accounts receivable	<u>70</u>	<u>32</u>
	<u><u>2 680</u></u>	<u><u>3 222</u></u>
LIABILITIES		
Accounts payable	41	72
Claims payable to employees	<u>2 639</u>	<u>3 150</u>
	<u><u>2 680</u></u>	<u><u>3 222</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**BACK PAY FUND**
STATEMENT OF CHANGE IN ASSETS
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE		
Claims collected from employers	1 583	2 476
Investment income	37	52
Increase in accounts payable		<u>41</u>
	<u>1 620</u>	<u>2 569</u>
DECREASE		
Decrease in accounts payable	31	
Claims paid to employees	2 040	2 346
Transfer to General Fund – Unidentified employee claims	<u>91</u>	<u>38</u>
	<u>2 162</u>	<u>2 384</u>
INCREASE (DECREASE) IN ASSETS AND LIABILITIES	(542)	185
OPENING ASSETS AND LIABILITIES	<u>3 222</u>	<u>3 037</u>
CLOSING ASSETS AND LIABILITIES	<u><u>2 680</u></u>	<u><u>3 222</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**EMPLOYER CONTRIBUTIONS FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	450	1 121
Investments and accrued revenue (Note 5.1)	949	
Employer contributions receivable	571	583
Advances on contributions	<u>130</u>	<u>130</u>
	<u>2 100</u>	<u>1 834</u>
LIABILITIES		
Accounts payable	16	12
Refundable employer contributions	<u>2 084</u>	<u>1 822</u>
	<u>2 100</u>	<u>1 834</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

STATEMENT OF CHANGE IN ASSETS AND LIABILITIES

for the year ended December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE		
Employer contributions	10 505	10 323
Investment income	32	38
Increase in accounts receivable	<u>4</u>	<u>2</u>
	<u>10 541</u>	<u>10 363</u>
DECREASE		
Contribution refunds	10 243	10 169
Transfer to General Fund – investment income	<u>32</u>	<u>38</u>
	<u>10 275</u>	<u>10 207</u>
INCREASE IN ASSETS AND LIABILITIES	266	156
OPENING ASSETS AND LIABILITIES	<u>1 834</u>	<u>1 678</u>
CLOSING ASSETS AND LIABILITIES	<u>2 100</u>	<u>1 834</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

UNION ASSESSMENT FUND

STATEMENT OF ASSETS AND LIABILITIES

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	2 436	5 561
Investments and accrued revenue (Note 5.1)	5 402	
Employee contributions receivable	4 670	5 357
Advances on contributions	<u>1 712</u>	<u>1 635</u>
	<u>14 220</u>	<u>12 553</u>
LIABILITIES		
Accounts payable	199	175
Assessments to be remitted	<u>14 021</u>	<u>12 378</u>
	<u>14 220</u>	<u>12 553</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**UNION ASSESSMENT FUND**
STATEMENT OF CHANGE IN ASSETS AND LIABILITIES
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE		
Assessments collected	65 535	58 810
Increase in accounts payable	24	61
Increase in advances on contributions	77	3
Investment income	<u>157</u>	<u>181</u>
	<u>65 793</u>	<u>59 055</u>
DECREASE		
Assessments remitted	63 969	57 066
Transfers to General Fund – investment income	<u>157</u>	<u>181</u>
	<u>64 126</u>	<u>57 247</u>
INCREASE IN ASSETS AND LIABILITIES	1 667	1 808
OPENING ASSETS AND LIABILITIES	<u>12 553</u>	<u>10 745</u>
CLOSING ASSETS AND LIABILITIES	<u>14 220</u>	<u>12 553</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**RESIDENTIAL SECTOR CONTRIBUTION FUND****STATEMENT OF ASSETS AND LIABILITIES**

as at December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	51	120
Investments and accrued revenue (Note 5.1)	107	
Employer contributions receivable	<u>156</u>	<u>142</u>
	<u>314</u>	<u>262</u>
LIABILITIES		
Employer contributions payable	<u>314</u>	<u>262</u>
	<u>314</u>	<u>262</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

STATEMENT OF CHANGE IN ASSETS AND LIABILITIES

for the year ended December 31, 2008

(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE		
Employer contributions	1 067	933
Investment income	<u>5</u>	<u>5</u>
	1 072	938
DECREASE		
Payment of contributions	<u>1 020</u>	<u>898</u>
INCREASE IN ASSETS AND LIABILITIES	52	40
OPENING ASSETS AND LIABILITIES	<u>262</u>	<u>222</u>
CLOSING ASSETS AND LIABILITIES	<u>314</u>	<u>262</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

UNION TRAINING CONTRIBUTION FUND

STATEMENT OF ASSETS AND LIABILITIES

as at December 31, 2008

(in thousands of dollars)

	2008	2007
ASSETS		
Cash and cash equivalents (Note 5.1)	27	73
Investments and accrued revenue (Note 5.1)	57	
Employee contributions receivable	323	298
	<u>407</u>	<u>371</u>
LIABILITIES		
Employees contributions payable	407	371
	<u>407</u>	<u>371</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 André Ménard, President and Chief Executive Officer
 Donald Fortin, Director

STATEMENT OF CHANGE IN ASSETS AND LIABILITIES

for the year ended December 31, 2008

(in thousands of dollars)

	2008	2007
INCREASE		
Employee contributions	2 006	1 864
Investment income	3	4
	<u>2 009</u>	<u>1 868</u>
DECREASE		
Contribution remittances	1 970	1 822
Transfer to General Fund – investment income	3	4
	<u>1 973</u>	<u>1 826</u>
INCREASE IN ASSETS AND LIABILITIES	36	42
OPENING ASSETS AND LIABILITIES	<u>371</u>	<u>329</u>
CLOSING ASSETS AND LIABILITIES	<u>407</u>	<u>371</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND**

BALANCE SHEET
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	1 493	5 546
Investments and accrued revenue (Note 5.1)	3 161	
Employer contributions receivable	245	296
Recovery of compensation receivable	<u>1 145</u>	<u>1 235</u>
	<u>6 044</u>	<u>7 077</u>
LIABILITIES		
Accounts payable	8	7
Compensation payable to employees	<u>2 466</u>	<u>2 446</u>
	2 474	2 453
EQUITY	<u>3 570</u>	<u>4 624</u>
	<u>6 044</u>	<u>7 077</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Donald Fortin, Director

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SPECIAL COMPENSATION FUND**
STATEMENT OF CHANGE IN EQUITY
 for the year ended December 31, 2008
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN EQUITY		
Employer contributions	2 542	2 329
Compensation recovered	386	308
Penalties	105	119
Investment income	<u>156</u>	<u>240</u>
	<u>3 189</u>	<u>2 996</u>
DECREASE IN EQUITY		
Compensation paid to employees	4 087	3 929
Transfer to General Fund – investment income	<u>156</u>	<u>240</u>
	<u>4 243</u>	<u>4 169</u>
DECREASE IN EQUITY	(1 054)	(1 173)
OPENING EQUITY	<u>4 624</u>	<u>5 797</u>
CLOSING EQUITY	<u><u>3 570</u></u>	<u><u>4 624</u></u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**ELIGIBILITY FUND****BALANCE SHEET**
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (Note 5.1)	1 448	4 072
Investments and accrued revenue (Note 5.1)	3 051	
Employer contributions receivable	<u>79</u>	<u>83</u>
	<u>4 578</u>	<u>4 155</u>
LIABILITIES		
Employee compensation payable	<u>17</u>	<u>9</u>
	17	9
EQUITY (Note 17)	<u>4 561</u>	<u>4 146</u>
	<u>4 578</u>	<u>4 155</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Ménard, President and Chief Executive Officer
Donald Fortin, Director

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE IN EQUITY		
Employer contributions	523	522
Investment income	<u>125</u>	<u>148</u>
	648	670
DECREASE IN EQUITY		
Assessments remitted to employees	<u>233</u>	<u>178</u>
INCREASE IN EQUITY	415	492
OPENING EQUITY	<u>4 146</u>	<u>3 654</u>
CLOSING EQUITY	<u>4 561</u>	<u>4 146</u>

The notes are an integral part of these financial statements.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2008

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Commission de la construction du Québec (CCQ) was established by the *Act respecting labour relations, vocational training and manpower management in the construction industry* (R.S.Q., c. R-20) to apply collective agreements and fringe-benefit plans and manage vocational training and manpower in the construction industry. To do so, the CCQ administers eleven funds, a supplementary pension plan and insurance plans.

Under federal and provincial income tax legislation, the CCQ does not pay income tax.

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS

2.1. General Fund

The General Fund was established to report on the CCQ's operations related to the application of the collective agreements concluded under the *Act respecting labour relations, vocational training and manpower management in the construction industry*. This includes the administration of any complementary social benefits plan and other functions conferred on the CCQ by the Act.

2.2. Supplemental pension plan

The following description of the supplemental pension plan for employees of the Québec construction industry (plan) is given for information purposes. For more complete information concerning this plan, please consult the *Regulation respecting complementary social benefits plans in the construction industry* (R-20, r.14.01) published in the *Gazette officielle du Québec*.

GENERAL INFORMATION

This is an inter-enterprise pension plan developed by the CCQ for social benefits in the construction industry and, on January 1, 1976, replaced plans that were previously in effect. Under it, contributions are paid by employers and participants. The plan is registered in accordance with the *Supplemental Pension Plans Act* (R.S.Q., c. R-15.1), under number 25299.

A pension fund was established to collect employee and employer contributions to cover the cost of benefits payable under the supplemental pension plan. The fund comprises three separate accounts: the general account, the complementary account and the pensioners' account.

Until December 25, 2004, the general account was supplied by employer contributions and participants' contributions paid under a general formula applicable to all participants. It had a defined-benefit structure and provided for the accumulation of pension credits based on adjusted hours worked. Since December 26, 2004, the general account is supplied only by employer contributions for past service. These contributions for past service are paid to amortize the plan's actuarial deficit.

The general account covers expenses incurred by the General Fund for administration of the supplemental pension plan, basic insurance plans and other administrative expenses in the pensioners' account.

The complementary account has a defined-contribution structure and the pension payable equals the amount of the pension constituted by the value accumulated in the participant's account at the date of retirement. Until December 25, 2004, the complementary account received contributions paid by participants according to specific formulas for each trade or occupation. Since December 26, 2004, it receives employer contributions for current service, those that participants paid under the general formula applicable to all participants and those paid by participants according to specific formulas for each trade or occupation.

The general and complementary accounts provide for the payment of death and severance benefits for non-retired contributors. When a contributor retires, a portion of assets from the general and complementary accounts is transferred to the pensioners' account to provide for the lifetime annuity payable to the pensioner or the pensioner's spouse.

The pensioners' account is augmented by revenues generated by its own assets.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)

2.2. Supplemental pension plan (cont'd)

FUNDING

Within the meaning of the *Supplemental Pension Plans Act* (R.S.Q., c. R-15.1), there is no plan promoter since the Plan was created by the *Regulation respecting complementary social benefit plans in the construction industry* (R-20, r. 14.01). This Regulation is designed to enact clauses of construction industry collective agreements, which the CCQ is responsible for enforcing.

In keeping with section 118 of this Regulation, no later than three years after the last evaluation, the CCQ has the supplemental pension plan evaluated for Québec construction industry employees by an independent actuary. The evaluation comes into effect on December 31 each year. The actuarial opinion is valid for the three years following the evaluation's effective date. The approach advocated to offset the effects of fluctuating asset yields and adjustments in economic and demographic assumptions is the use of a reserve for economic fluctuations for the general account and a reserve for indexations futures for the pensioners' accounts.

The objectives of the actuarial evaluation are: to recommend, if applicable, an adjustment in the employer contribution between the employer contribution for past service and that for current service and recommend, if applicable, an adjustment, to basic pensions accumulated and pensions being paid on the evaluation's effective date. This evaluation is based on assumptions determined by actuaries outside the CCQ but accountable to management (see Notes 9.1 and 9.2).

RETIREMENT BENEFITS

Contributors are entitled to benefits without any actuarial reduction at the age of 65, at the age of 60 if the sum of their age and the total of hours worked divided by 1400 is equal to or greater than 70, or at the age of 55 if the sum of their age and hours worked divided by 1400 is equal to or greater than 80 and the sum of their age and years of service is equal to or greater than 80.

In the case of contributors who are 55 years of age and the sum of their age and the total of hours worked divided by 1400 is equal to or greater than 80 but the sum of their age and years of service is less than 80, only the portion of the pension payable for hours worked after 1991 is reduced by 1/4% per month for the months between the month closest to that where the sum of their age and years of service is 80 if they continued to accumulate years of service and the month they turn 60.

Contributors are entitled to an early retirement pension with actuarial reduction at the age of 55, or at the age of 50 if the sum of their age and their total of hours worked divided by 1400 is equal to or greater than 60.

Contributors who retire before the age of 65 may choose to receive an enriched annuity in order to subsequently receive a reduced pension at the age of 65.

Pensions are subject to adjustments determined by the CCQ following an actuarial valuation of the supplemental pension plan.

DISABILITY PENSION

If a contributor who is at least 50 years of age and has accumulated 21 000 hours of work becomes totally disabled, he/she is entitled to receive a disability pension beginning the 53rd week following the date on which disability began. Where applicable, the amount of the pension payable under the general account, for service prior to December 26, 2004, is reduced by 1/4% per month between the date of retirement and the closest date to when the contributor would have been eligible for a pension without any actuarial reduction. The pension payable under the complementary account equals the pension consisting of the accumulated value of the participant's account at the date of retirement. The total disability pension remains payable even if the disability ceases.

DEATH BENEFITS

If an unretired participant dies, the eligible surviving spouse receives a lump sum benefit equal to the actuarial value of the pension constituted by the participant.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)**2.2. Supplemental pension plan (cont'd)****DEATH BENEFITS (cont'd)**

When a retiree dies before having received 60 monthly instalments, the spouse receives a pension equal to 100% of the pension the retiree received until a total of 60 monthly instalments have been paid to the retiree and the spouse. After this time, the pension payable to the spouse is reduced to 60% of the pension received by the retiree (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

When a retiree dies after having received 60 monthly instalments, the spouse receives a pension equal to 60% of the pension the retiree received (50% if, at the time the contributor retired, the spouse, renounced the 60% joint life annuity).

If a retiree dies without a spouse and before having received 60 monthly instalments, the designated beneficiary receives a lump-sum benefit equal to the actuarial value of the balance of the 60 monthly instalments guaranteed at the time of retirement.

Since December 26, 2004, a participant can choose to have the pension replaced by a ten-year guaranteed-payment pension. In this case, 60 instalments must be replaced by 120 instalments in all occurrences.

SEVERANCE BENEFITS

A participant with no work time to his credit over 24 consecutive months is entitled to a deferred pension equal to the general account basic pension and the pension related to his complementary account. However, as long as the participant is not eligible for a normal or early retirement pension, he can request that the actuarial value of his deferred pension be transferred into another authorized retirement-savings vehicle.

CONTRIBUTIONS AFTER RETIREMENT

Until December 25, 2004, the contributions received in the general account were reimbursed to participants receiving a retirement pension or having exceeded normal retirement age the following year. Since December 26, 2004, only employers contribute to the general account and their contributions for past service are no longer reimbursed. The contributions received in the complementary account from participants receiving a retirement pension or having exceeded normal retirement age and from employers are reimbursed to them the following year.

SUPPLEMENTAL PENSION PLANS ACT

The Act to amend the Supplemental Pension Plans Act (2000, c. 41), which came into effect on January 1, 2001, amended the Supplemental Pension Plans Act (R.S.Q., c. R15.1). The Plan is governed by this statute. The CCQ has entered into talks with the Régie des rentes du Québec regarding the statute's application to this plan, since the implementation of several of its provisions would cause excessive problems, given the specific characteristics of the pension plan. These discussions led to the publication, on May 12, 2004, of O.C. 415-2004 which removes the Plan from certain provisions of the statute or postpones its implementation. However, certain elements regarding plan financing and solvability continue to be discussed.

2.3. Insurance plans

A group contingency fund, the basic insurance plan, is created to receive employer contributions and voluntary employee contributions, to pay benefits and compensation provided for under insurance plans and to pay inherent expenses.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)

2.3. Insurance plans (cont'd)

Supplemental group insurance funds were established to collect the additional contributions for employees who ply a specific trade or group of trades and to provide for the payment of premiums and expenses related to the supplemental insurance plan. Supplemental plans for the trades and occupations electrician, roofer, tinsmith, pipefitters, lineworkers, fire protection mechanics, refrigeration mechanics, carpenters, worksite mechanics and the trowel trades (bricklayers, cement finishers, plasterers and tile setters) have been cumulated for the presentation of the financial statements.

Since 1998, the collective contingency fund for basic insurance plans pays for the additional coverage provided for in the supplemental plan, in exchange for payment of an insurance premium for each person insured under a supplemental plan. This premium is established at the beginning of the year following the coverage period.

2.4. Trust funds

TRAINING PLAN FUND – WORK SECTORS

This fund was established to record employer contributions for funding construction industry worker training, in keeping with the industry's collective agreements, i.e. those of the institutional, commercial, industrial, civil engineering and public works sectors.

TRAINING PLAN FUND – RESIDENTIAL SECTOR

This fund records the employer contributions used to finance the training plan fund for the residential sector, in accordance with the collective agreements for employees of the construction industry.

HOLIDAY AND VACATION PAY FUND

This fund reports on holiday and vacation pay and interest earned on behalf of employees of the construction industry in accordance with the applicable collective agreements.

BACK PAY FUND

This fund reports on salary claims made by the CCQ on behalf of construction industry employees under section 81 of the *Act respecting labour relations, vocational training and manpower management in the construction industry*.

EMPLOYER CONTRIBUTIONS FUND

This fund reports on employer contributions on behalf of the employers' association under section 40 of the *Act respecting labour relations, vocational training and manpower management in the construction industry*.

UNION ASSESSMENT FUND

This fund reports on the union assessment deducted from the salaries of employees of the construction industry for union associations under section 38 of the *Act respecting labour relations, vocational training and manpower management in the construction industry*.

RESIDENTIAL SECTOR CONTRIBUTIONS FUND

This fund has been set up to report on employer contributions designed to allow employers and unions bring on-line, harmoniously implement and disseminate applicable work conditions, gauge their relevance and effectiveness and undertake any other approach or analysis to promote closer, more concerted relations between the parties in accordance with the collective agreement governing the residential sector of the construction industry.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

2. PURPOSE AND DESCRIPTION OF FUNDS AND PLANS (cont'd)**2.4. Trust funds (cont'd)****UNION TRAINING CONTRIBUTION FUND**

This fund was set up to report on employee contributions in order to allow union associations to offer training services to develop skills in all aspects related to labour relations, in keeping with the collective agreements of the institutional, commercial, industrial, civil engineering and public works sectors.

SPECIAL COMPENSATION FUND

This fund reports on employer contributions used to compensate construction industry employees for the loss of wages and fringe benefits as a result of employer insolvency or when called for jury duty, in accordance with the collective agreements for employees of the construction industry.

ELIGIBILITY FUND

This fund reports on employer contributions used to compensate employees for the costs incurred to renew their competency certificate issued by the Canadian Welding Bureau, in accordance with the collective agreements for employees of the construction industry. The eligibility funds for mechanics, locksmiths, erectors, linemen, reinforcing steel erectors, electricians, tinsmiths, boilermakers, pipefitters and pipe welders have been cumulated for the purpose of financial statement presentation.

3. SUMMARY OF MAIN ACCOUNTING POLICIES**3.1. Consolidation principles**

The financial statements of the supplemental pension and insurance plans and trust fund are not consolidated in the financial statements of the General Fund since, by virtue of legislation, regulations and collective agreements, the funds and plans constitute separate legal and accounting trusts.

3.2. Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect assets and liabilities reporting, contingent assets and liabilities presentation on the date of the financial statements, and revenues and expenses reporting over the period covered by the financial statements. Real results may differ from these estimates.

3.3. Revenue and transfer reporting**GENERAL FUND***Deduction revenues*

Deduction revenues are reported in the fiscal year in which the hours are worked.

Service rate-setting

Service rate-setting revenues are reported in the fiscal year in which the services are rendered.

Revenues from fines

Revenues from fines are reported in the fiscal year in which they are cashed.

Voluntary contributions

Revenues from voluntary contributions are reported in the fiscal year in which the contributions are received.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.3. Revenue and transfer reporting (cont'd)

GENERAL FUND (cont'd)

Transfer of compensation for annual holidays, statutory holidays and unidentified or unclaimed compensation and claims

Regulations stipulate that claims for wages kept in trust and payable to unidentified employees over the past three years at December 31 of a given year and compensation for unclaimed or unidentified vacation time kept in trust over the past three years at January of a given year are transferred to General Fund revenues for administration at the beginning of the fiscal year following the above-mentioned dates.

Investment income

General Fund investment income is reported using the accrual method. Further, under regulations, investment income generated by the Employer Contributions Fund, Union Assessment Fund, Union Training Contribution Fund and Special Compensation Fund is transferred to General Fund investment income for administration as it is earned and reported as revenues in the different funds.

Transfer from supplemental pension and insurance funds, the Training Plan Fund – Work Sectors and the Training Plan Fund – Residential Sector

Regulations stipulate that transfers from supplemental pension and insurance funds, the Training Plan Fund – Work Sectors and the Training Plan Fund – Residential Sector are set annually by the CCQ. The amount required to cover the administrative expenses of these funds is determined using a formula that is established and approved by the Board of Directors.

Transfer of interest from the Holiday and Vacation Pay Fund

Regulations stipulate that interest from the Holiday and Vacation Pay Fund be transferred to the General Fund to pay the Fund's administrative expenses and collection fees of up to 25% of the interest generated by the Fund plus a lump sum of \$965 000.

Rental and other income

Other income is primarily rental income and is reported using the accrual method.

SUPPLEMENTAL PENSION PLANS

Employee and employer contributions

Revenues from employee and employer contributions are reported in the fiscal year in which the hours entitling employees to pensions are worked.

Contributions after retirement

Revenues from contributions after retirement are reported in the fiscal in which they are received.

Investment income

Investment income is reported using the accrual method.

INSURANCE PLANS

Employer contributions and voluntary employee contributions

Revenues from employer contributions and voluntary employee contributions are reported in the fiscal year corresponding to the periods those insured were covered.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)**3.3. Revenue and transfer reporting (cont'd)***Investment income*

Investment income is reported using the accrual method.

Prepaid contributions for eventual coverage

Prepaid contributions for eventual coverage comprise employer contributions designed to maintain employees' insurability. They are deferred and transferred to revenues for the fiscal year corresponding to the insurance periods for which they are used.

TRUST FUNDS*Employer and employee contributions*

Revenues from employer and employee contributions are reported in the fiscal year in which the hours were worked.

Investment income

Investment income is reported using the accrual method. Investment income generated by the Employer Contributions Fund, Union Assessment Fund, Union Training Contribution Fund and Special Compensation Fund is transferred to General Fund investment income for administration as it is earned.

Compensation collected

Compensation collected for compulsory annual vacation and paid holidays is reported in the fiscal year in which the hours entitling employees to the compensation are worked.

Claims collected from employers

Claims collected from employers are reported in the fiscal year in which the claims were settled.

Recovery of compensation and penalties

Recovery of compensation and the related penalties are reported in the fiscal year in which the compensation was recovered.

3.4. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, overdrafts and highly liquid investments, which mature within three months of their acquisition date. Cheques issued but not cashed reduce cash and cash equivalents and are posted to "Assets held for transaction purposes".

3.5. Accounts receivable

Accounts receivable include the following: accounts receivable, levies receivable, employer contributions receivable, employer compensation receivable, employer claims receivable, advances on contributions, employee contributions receivable and recovery of compensation receivable. Receivables are posted to "Loans and receivables".

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.6. Accounts payable

“Accounts payable” include the following: accounts payable and accrued liabilities, contributions to be repaid after retirement, pensions and lump sum benefits payable, training activities payable, claims payable to employees, employer contributions to be remitted, employee contributions to be remitted and employee compensation payable. Payable are posted to “Other assets”.

3.7. Investments

GENERAL FUND, SUPPLEMENTAL PENSION PLAN FUND, INSURANCE PLANS AND TRUST FUNDS

Investments are posted to “Assets held for transaction purposes” and measured at fair value. The gains and losses resulting from their periodic re-evaluation are posted to the fiscal year’s results.

The temporal method is used to convert investments acquired in foreign currencies to Canadian dollars. According to this method, investments held in foreign currencies are converted to Canadian dollars at the exchange rate in effect at fiscal year-end. The income from these investments is converted at the exchange rate in effect the date of the operations and is posted to results under “Investment income”.

3.8. Financial instruments

Category of financial instruments

Assets held for transaction purposes are acquired mainly for short-term resale in order to make a profit.

Financial liabilities held for transaction purposes belong to a portfolio of financial instruments designated as such and managed as a whole and present indications of a recent short-term profit-taking profile.

Loans and receivables do not include debt security.

Other financial liabilities correspond to all other liabilities that are not held for transaction purposes.

Measurement

Financial instruments are reported at their fair value the date of the transaction. Assets (liabilities) held for transaction purposes are measured at fair value and the gains and losses resulting from the periodic re-measurement are posted to the fiscal year’s results under “Investment income”.

Loans and receivables and other liabilities are measured at cost after amortization using the effective interest-rate method. Generally, this measurement corresponds to cost.

Fair value

A financial instrument’s initial fair value generally corresponds to the transaction price, i.e. the fair value of the consideration received or given. After the initial measurement, fair values are determined using available information. When an active market exists, the fair values of financial instruments are determined using the buying price. When independent prices are not available, the closing price of the most recent transaction linked to the instrument is used or the value is determined using measurement techniques based on assumptions using as much observable market data as possible.

The fair value of financial instruments other than shares and bonds is equivalent to cost, given that they mature in the short-term and correspond to market prices.

Cash and cash equivalents, investments and accrued revenues and assets (liabilities) linked to derivative financial instruments are considered in the category “Assets (liabilities) held for transaction purposes”. They are measured at fair value and the gains and losses resulting from their periodic re-measurement are posted to the fiscal year’s results under “Investment income”.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)**3.8. Financial instruments (cont'd)***Derivative financial instruments*

In keeping with the investment policy for funds managed by the general administration funds, insurance plans and trust funds, the CCQ uses derivative financial instruments to manage its exchange risk on investments held in foreign currency. Derivative financial instruments comprise term exchange contracts. The CCQ does not use derivative financial instruments for speculation purposes.

Derivative financial instruments are reported in the balance sheet at fair value and unrealized gains and losses are posted to the fiscal year's results under "Added value (Decline in value) linked to derivative financial instruments".

3.9. Long-term assets

GENERAL FUND

Capital assets

Capital assets are reported at cost. Amortization is calculated using the straight-line method based on the duration of the capital assets' use. The amortization of capital assets under construction begins when construction is completed and the good is in use.

Buildings	40 years
Building fit-up	5 years
Office furniture and equipment	10 years
Data processing equipment	5 years
Leasehold improvements	4 years

Intangible assets

Intangible assets correspond to the cost of software and computer development projects under way and are amortized using the straight-line method, which is based on a three-year duration of use. Amortization of computer development projects begins when the projects are completed and the good is in use.

Depreciation of long-term assets

Long-term assets undergo a depreciation test when events of changes in the situation indicate that their book value might not be recoverable through future unrealized net cash flows directly associated with their use and eventual transfer. The amount of the decline in value represents the difference between the book value and the fair value of the depreciated assets and is posted to results, where applicable.

TRAINING PLAN FUND – WORK SECTORS AND TRAINING PLAN FUND – RESIDENTIAL SECTOR

Reusable training materials

Reusable training materials correspond to assets purchased in the context of training activities. They are amortized using the straight-line method, based on the duration of use envisaged in agreements between the CCQ and school boards. The duration of the agreement is three, five or ten years.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)

3.10. Deferred subsidies

Gouvernement du Québec subsidies received, reported in the General Fund, are deferred and posted to revenues in the fiscal year in which the corresponding expenses are incurred. The CCQ may repay subsidies received in excess of expenses actually incurred and stipulate in the agreement to the Gouvernement du Québec. Subsidies repayable, where applicable, are presented under "Accounts payable and accrued liabilities". In 2008, subsidies received from the Gouvernement du Québec totalled \$8 058 000 for 2008-2009 (2007: \$7 817 000). It is probable that \$100 263 will have to be repaid for the unused portion of Gouvernement du Québec subsidies for 2008-2009 (December 31, 2007: zero).

The subsidy received from Human Resources Development Canada (HRDC), reported in the Training Plan Fund – Work Sectors and the Training Plan Fund – Residential Sectors, is deferred and posted to results at the same rate as the amortization of the reusable training materials.

3.11. Deferred revenue

GENERAL FUND

Revenues for services invoiced are deferred and reported in the fiscal year in which the services are actually rendered.

3.12. Future fringe benefits

GENERAL FUND

Defined-benefit plans and supplemental pension benefits offered to CCQ employees are reported as follows:

- For plan assets expected rate of return calculation purposes, plan assets are measured at fair value.
- The CCQ uses an evaluation based on assets' market value, which reflects the effect of investment gains or losses over a three-year period as of the fiscal year in which they are produced for the purpose of measuring retirement costs.
- Net actuarial gains and losses, based on the market value of plan assets, 10% higher than the higher of the obligation for constituted benefits and the value based on the market value of plan assets, and the cost of past services are posted to results over the estimated medium term of the remainder of the participant's working career varying from 10 to 12 years, depending on the plan.
- The cost of retirement benefits and employees' supplemental pension benefits is established using actuarial calculations and the benefit distribution method on a prorated basis of the years of service and management's best estimates of the anticipated yield of plan investments, wage growth, employees' retirement age, plan participant mortality and health-care costs.
- The cost of retirement benefits and employees' supplemental retirement benefits is posted to results as the services are rendered by the employees.
- The measuring date used by the CCQ is December 31.

3.13. Compensation paid to employees

SPECIAL COMPENSATION FUND

Compensation paid to employees is reported when it is known and proven that the employer is insolvent.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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3. SUMMARY OF MAIN ACCOUNTING POLICIES (cont'd)**3.14. Insurance plan actuarial liabilities**

Actuarial liabilities comprise the current estimated value of all future payments to be made for insurance plan benefits and compensation. These liabilities include provisions for benefits payable and pension benefits for invalid insureds.

Actuarial liabilities are estimated using standard actuarial techniques, based on claim and payment statistic evolution. This requires using assumptions, such as payment statistics, future frequency rates, inflation, changes in statutes and regulations, and other factors, in the nature of insurance coverage.

4. NEW ACCOUNTING POLICIES**4.1. Recent changes***Financial instruments*

On January 1, 2008, the CCQ adopted the recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, "Financial Instruments – Disclosure" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861, "Financial Instruments – Disclosure and Presentation". These sections modify requirements for information to be disclosed on the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. Presentation rules have not changed. Adopting these new standards has not affected financial instrument reporting or measurement. The information required is disclosed in la Note 14 "Financial instruments".

Capital disclosures

On April 1, 2008, the CCA adopted the new recommendations of Section 1535 of the CICA Handbook, "Capital disclosures", which requires presenting information on how capital is managed. This information is disclosed in Note 15, "Capital management".

4.2. Future changes*Goodwill and intangible assets*

In February 2008, CICA release the new Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development".

The new Section 3064 confirms that when initially reported, intangible assets must be recognized as assets only if they correspond to the definition of an intangible asset and to the measurement criteria of an asset. Section 3064 also supplies additional indications for the measurement of intangible assets generated internally.

For subsequent measurement of intangible assets, goodwill and information to disclose, Section 3064 repeats most of the recommendations of the former Section 3062.

The new section will apply to CCQ annual financial statements for fiscal years beginning as of January 1, 2009. The CCQ is currently assessing the impact of adopting the recommendations contained in this section on its financial statements.

Credit risks and fair value of financial assets and liabilities

On January 20, 2009, CICA's Emerging Issues Committee (EIC) released abstract EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which applies to fiscal years ending after this date and stipulates that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The CCQ is currently assessing the impacts of adopting this abstract's recommendations on its financial statements. This abstract will apply to CCQ financial statement for fiscal years beginning after January 1, 2009.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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5. INVESTMENTS

5.1. Investments managed internally

GENERAL FUND, SUPPLEMENTAL PENSION PLANS, INSURANCE PLANS AND TRUST FUNDS

Investments managed internally break down as follows in the different asset categories:

					2008	2007
Cash and cash equivalents						
Cash on hand					35 976	385 268
Short-term deposit ¹					106 880	1 698
Broker's account ²					(266)	
Accrued interest					196	1 208
Cheques issued but not cashed					(7 669)	(7 440)
					<u>135 117</u>	<u>380 734</u>
	In less than a year	1-5 years	More than 5 years	No set maturity date	2008	2007
Investments and accrued revenue						
Long-term deposit	295 488				295 488	2 023
Bonds issued ³						
Canadian, provincial or municipal	9 996	121 896	122 834		254 726	263 091
Corporate	875	29 508	33 761	43 017	107 161	115 866
Canadian shares				99 060	99 060	107 954
American shares				101 824	101 824	103 809
International shares				98 975	98 975	106 826
Real estate fund				59 532	59 532	53 001
Accrued interest				5 082	5 082	3 454
	<u>306 359</u>	<u>151 404</u>	<u>156 595</u>	<u>407 490</u>	<u>1 021 848</u>	<u>756 024</u>
					<u>1 156 965</u>	<u>1 136 758</u>

1 Maturing no later than March 25, 2009.

2 Corresponds to transactions awaiting settlement.

3 Different maturity dates up to 2043 with at rates varying from 3.25% and 11.50%.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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5. INVESTMENTS (cont'd)

5.1. Investments managed internally (cont'd)

GENERAL FUND, SUPPLEMENTAL PENSION PLANS, INSURANCE PLANS AND TRUST FUNDS (cont'd)

Investments managed internally break down as follows in the CCQ's different financial statements:

	2008	2007
Cash and cash equivalents		
General Fund	28 282	79 716
Supplemental pension plan – general account	(248)	1 828
Supplemental pension plan – complementary account	2 062	3 374
Supplemental pension plan – pensioners' account	15 256	39 411
Basic insurance plans	21 813	68 116
Supplemental insurance plans	984	4 316
Training Plan Fund – Work Sectors	2 308	6 987
Training Plan Fund – Residential Sector	97	716
Holiday and Vacation Pay Fund	58 640	158 562
Back Pay Fund	18	1 215
Employer Contributions Fund	450	1 121
Union Assessment Fund	2 436	5 561
Residential Sector Contributions Fund	51	120
Union Training Contribution Fund	27	73
Special Compensation Fund	1 493	5 546
Eligibility Fund	1 448	4 072
	<u>135 117</u>	<u>380 734</u>
Investments and accrued revenue		
General Fund	60 013	
Supplemental pension plan – general account	673	
Supplemental pension plan – complementary account	4 345	
Supplemental pension plan – pensioners' account	32 196	
Basic insurance plans	530 434	483 763
Supplemental insurance plans	41 475	42 233
Training Plan Fund – Work Sectors	128 967	149 645
Training Plan Fund – Residential Sector	23 799	27 318
Holiday and Vacation Pay Fund	186 399	53 065
Back Pay Fund	820	
Employer Contributions Fund	949	
Union Assessment Fund	5 402	
Residential Sector Contributions Fund	107	
Union Training Contribution Fund	57	
Special Compensation Fund	3 161	
Eligibility Fund	3 051	
	<u>1 021 848</u>	<u>756 024</u>
	<u>1 156 965</u>	<u>1 136 758</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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5. INVESTMENTS (cont'd)

5.2. Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value

Supplemental pension plan funds entrusted to the Caisse de dépôt et placement du Québec (CDPQ) break down as:

	2008	2007
General account		
Advances	(23 001)	(7 000)
Participation deposits ¹	2 986 381	3 788 527
Accrued revenue	20 771	8 534
	<u>2 984 151</u>	<u>3 790 061</u>
Complementary account		
Demand deposit	34 004	38 005
Participation deposits ¹	2 515 196	2 737 821
Accrued revenue	15 254	5 994
	<u>2 564 454</u>	<u>2 781 820</u>
Pensioners' account		
Demand deposit (advances)	(24 000)	(27 003)
Participation deposits ¹	4 265 082	5 184 330
Accrued revenue	27 580	10 966
	<u>4 268 662</u>	<u>5 168 293</u>
	<u><u>9 817 267</u></u>	<u><u>11 740 174</u></u>

1 The participation deposits held for each supplemental pension plans account are expressed in units. These units are refundable at the fair value of the net equity of the fund at months' end on advance notice of CDPQ terms and conditions. At months' end, the CDPQ assigns each account revenues minus management fees, investment income and gains and losses realized on investments minus management fees.

Restructuring of third-party ABCPs

The fair value of participation deposits at December 31, 2008 was determined by the Caisse de dépôt et placement du Québec (CDPQ) using a decline in value on investments it holds on the Canadian market for asset-backed commercial papers not guaranteed by banks and being restructured (third-party ABCPs being restructured).

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest. Since August 2007, the CDPQ has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

The efforts to restructure third-party ABCPs begun on August 13, 2007, and in which the CDPQ participated actively, resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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5. INVESTMENTS (cont'd)

5.2. Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value (cont'd)

Restructuring of third-party ABCPs (cont'd)

The key aspects of the final agreement are as follows:

- creation of three structures in the form of trusts, called master asset vehicles (MAV I, MAV II and MAV III);
- MAV I and MAV II group the transactions of ABCP conduits comprising only synthetic or hybrid assets, that is, a combination of synthetic and traditional assets. They also include the high-risk assets associated with these transactions;
- MAV III will be composed of the transactions of ABCP conduits comprising only high-risk assets and traditional assets.

Given that there is no active market for the third-party and bank ABCPs in which the CDPQ had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market. As indicated above, these ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The fair value of each third-party and bank-sponsored ABCP was determined by estimating the actualized value of cash flows under different default and credit loss scenarios on all underlying assets, securities' real maturing dates and anticipated interest rates and reflects the subordination of the restructured notes where required. Once they have been adjusted to reflect the underlying assets' credit risk, the cash flows anticipated for third-party and bank-sponsored ABCPs are actualized at a rate corresponding to an AAA credit rating plus a financing illiquidity premium.

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDPQ management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years.

Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDPQ management's best current estimates.

For the fiscal year ended on December 31, 2008, the share of third-party and bank-sponsored ABCPs' net investment results totalled \$267.1 million (2007: \$145.6 million), which comprises the share in the \$249.8 million unrealized decline in value (2007: \$124.1 million), the share in the \$0.7 million in reversal of interest paid in specialized portfolios (2007: \$17.2 million) minus interest arrears nets (\$26 million) related to these securities, and the share in \$16.5 million in unrealized losses (2007: \$4.3 million). This share was assigned to the Supplemental pension plan for Québec construction-sector employees in keeping with the terms and conditions defined in this regard.

In addition to the amounts invested in ABCPs shown in its financial statements, the CDPQ also mentions contingencies resulting from the guarantees it issued in the context of third-party and bank-sponsored ABCP restructuring.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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5. INVESTMENTS (cont'd)

5.2. Funds entrusted to the Caisse de dépôt et placement du Québec – at fair value (cont'd)

Restructuring of third-party ABCPs (cont'd)

To date, the CDPQ has agreed to participate in security calls totalling \$323 million, which have not yet had to be disbursed. Should trusts issue further security calls, the CDPQ will be able to decide whether or not to participate. Should it decide not to participate, the underlying positions would be liquidated and the CDPQ's investments would likely be lost. The related securities and commitments mature no later than December 2016.

The share in the third-party and bank-sponsored ABCP unrealized decline in value shown versus the fair value of Supplemental pension plan for Québec construction-sector employees investments at December 31, 2008 totals \$373.9 million (2007: \$124.1 million) of a total of \$5 687 million for the CDPQ (2007: \$1 897 million).

6. LONG-TERM ASSETS

6.1. General Fund

Capital assets

	2008		
	Cost	Accumulated depreciation	Net
Land	5 906		5 906
Buildings	11 671	6 654	5 017
Building fit up	3 289	2 611	678
Furniture and equipment	6 488	5 042	1 446
Data processing equipment	8 398	6 719	1 679
Leasehold improvements	1 654	1 521	133
	<u>37 406</u>	<u>22 547</u>	<u>14 859</u>
Capital assets under construction	<u>5 219</u>		<u>5 219</u>
	<u>42 625</u>	<u>22 547</u>	<u>20 078</u>

	2007		
	Cost	Accumulated depreciation	Net
Land	5 906		5 906
Buildings	11 671	6 364	5 307
Building fit up	2 852	2 257	595
Furniture and equipment	6 436	4 836	1 600
Data processing equipment	8 045	5 802	2 243
Leasehold improvements	1 652	1 417	235
	<u>36 562</u>	<u>20 676</u>	<u>15 886</u>
Capital assets under construction	<u>4 270</u>		<u>4 270</u>
	<u>40 832</u>	<u>20 676</u>	<u>20 156</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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6. LONG-TERM ASSETS (cont'd)**6.1. General Fund***Intangible assets*

	2008		
	Cost	Accumulated depreciation	Net
Software	8 592	7 587	1 005
Computer systems development projects	2 275		2 275
	<u>10 867</u>	<u>7 587</u>	<u>3 280</u>

	2007		
	Cost	Accumulated depreciation	Net
Software	8 226	6 576	1 650
Computer systems development projects	1 870		1 870
	<u>10 096</u>	<u>6 576</u>	<u>3 520</u>

6.2. Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector**Reusable training materials**

	2008		
	Cost	Accumulated depreciation	Net
Training Fund	2 942	2 124	818
Training Plan	266	176	90

	2007		
	Cost	Accumulated depreciation	Net
Training Fund	2 917	1 825	1 092
Training Plan	258	145	113

7. BANK BORROWING

The CCQ has credit facilities with a financial institution that are renewable annually on July 1. At December 31, 2008, the maximum amount the CCQ could use was \$7 000 000. Amounts used bear interest at the prime rate. Moreover, in a bank overdraft related to one or more trust funds, substantial advances may be offered by the financial institution for a period not normally exceeding a few days and bearing interest at the prime rate. At December 31, 2008 and 2007, these credit facilities had not been used.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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8. CASH FLOWS**8.1. General Fund****Change on non-cash items of the Working Capital Fund**

	2008	2007
Withdrawals receivable	630	(232)
Accounts receivable	(907)	789
Prepaid expenses	1 013	(986)
Accounts payable and accrued liabilities	(7 178)	11 217
Deferred income	396	(736)
Deferred Gouvernement du Québec subsidy	(5)	29
	<u>(6 051)</u>	<u>10 081</u>

8.2. Other funds

A statement of cash flows for trust funds was not presented since it would provide no useful information to the reader that has not already been presented in the other financial statements.

9. OBLIGATIONS RELATED TO BENEFITS LINKED TO THE SUPPLEMENTAL PENSION PLAN**9.1. Obligations of the Supplemental Pension Plan**

The actuaries Groupe-conseil Aon established the actuarial value of the accumulated benefits of the general and pensioners' accounts using year-end closing information as at January 1, 2008. This value was adjusted by projection to December 31, 2008. The actuarial value was determined using the accumulated benefit method and the most probable assumptions, including appropriate margins for unfavourable variances. According to this method, the commitment corresponds to the actuarial value, on the date of evaluation, of the pension claims and other benefits payable based on the accumulated adjusted hours at this date. The complementary account is not concerned since this part of the plan involves defined contributions and the account's liabilities equal its assets.

According to the actuarial report dated May 19, 2009 and prepared for the financial statements, the actuarial value of benefits at December 31, the main elements in the change in actuarial values during the year and the value of the reserves determined in keeping with the *Regulation respecting complementary social benefit plans in the construction industry* are as follows:

	2008	2007
General account	4 482 775	4 473 693
Pensioners' account	5 041 161	4 857 741
Actuarial value of accumulated benefits at fiscal year-end	9 523 936	9 331 434
Reserve for economic fluctuations in the general account		901 499
Reserve for future indexation in the pensioners' account		339 996
Special reserve taken from the general account and equal to the difference between the value of the pensioners' account obligations and its assets	367 758	
Actuarial value of accrued benefits and reserves at fiscal year-end	<u>9 891 694</u>	<u>10 572 929</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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9. OBLIGATIONS RELATED TO BENEFITS LINKED TO THE SUPPLEMENTAL PENSION PLAN (cont'd)**9.1. Obligations of the Supplemental Pension Plan (cont'd)**

	2008	2007
Actuarial value of accrued benefits at the beginning of the fiscal year	9 331 434	9 079 396
Changes in actuarial assumptions	104 948	79 466
Interest cumulated on benefits	531 003	520 598
Benefits paid	(616 745)	(561 405)
Transfer from complementary account	113 773	101 237
Change in benefits		16 460
Loss of experience	59 523	95 682
	<u>9 523 936</u>	<u>9 331 434</u>
Actuarial value of accrued benefits at fiscal year-end		

The assumptions used to determine the actuarial value of accrued benefits reflect long-term market situation forecasts. The most significant long-term actuarial assumptions used for the evaluation are:

<i>(as a percentage)</i>	2008	2007
Assets' medium-term and long-term yield	5.81	5.81

The interest rates used to calculate general account commitments are reduced by 0.50% in 2008 (0.25% in 2007) before withdrawal to reflect administration expenses.

9.2. Actuarial value of net available assets

The actuarial value of net assets available for benefit service was determined to reflect long-term market trends (in keeping with the assumptions underlying the evaluation of accrued benefits). This evaluation is based on a method in which the actuarial value of assets is determined using the difference between the real and hoped-for market values of investments for the past three years. The adjusted value of the assets is restricted to 107% of the market value since December 31, 2002.

Until December 31, 2007, the value of assets was determined by extrapolating economic assumptions between September 30 and December 31. At December 31, 2008, exceptionally for the purposes of the financial statements, the value of assets was determined based on investments' fair value at this date in order to reflect the significant decline in financial markets during the third quarter of 2008.

Current actuarial value of assets:

	2008	2007
Fair value of net asset available for benefit payment		
General account	2 979 037	3 781 131
Pensioners' account	4 735 424 ¹	5 236 705
	<u>7 714 461</u>	<u>9 017 836</u>
Fair value changes not reflected in actuarial value of net assets	512 780	(75 724)
Actuarial value of net assets available for benefits	<u>8 227 241</u>	<u>8 942 112</u>

1 The values shown represent extrapolations.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
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9. OBLIGATIONS RELATED TO BENEFITS LINKED TO THE SUPPLEMENTAL PENSION PLAN (cont'd)**9.3. Capitalization policy**

Since December 26, 2004, participants' contribution of \$0.80 per hour worked, defined by the clauses that are common to the industry's four sectorial collective agreements, is paid into the complementary account in addition to those already foreseen for special clauses applicable to the different trades and occupations. The participants' contribution to the complementary account has varied from \$0.15 to \$3.80 per hour worked since the beginning of the plan.

For fiscal 2008, employer contributions for past and current service paid per hour worked respectively into the general and complementary accounts break down as:

		2008
		January 1 to December 29
Apprentices	General account	
	Past service	2.015
	Complementary account	
	Current service	0.75
Journeypersons	General account	
	Past service	2.015
	Complementary account	
	Current service	1.49

The last actuarial evaluation tabled before the Régie des rentes du Québec is that of December 31, 2006.

The table presented in Note 9.1 Obligations of the Supplemental Pension Plan shows that the reserve for economic fluctuations in the general account and the reserve for future indexation in the pensioners' account are zero. The plan's uncanceled obligation is \$1 664 453 000. Under these circumstances, a portion of this obligation, that is, \$89 715 000, would not be covered by the planned contribution for past service of \$2.015 per hour worked.

9.4. Failure to obey the actuarial deficit amortization rule stipulated in the *Supplemental Pension Plans Act*

The *Supplemental Pension Plans Act* states that the amortization period for actuarial deficits for solvency purposes may not exceed five years. Application of the amortization period foreseen by law would result in an employer contribution for past service of \$6.564 per hour worked rather than \$2.015 for an apprentice or journeyman in order to amortize the \$2 296 680 000 portion of the solvency deficiency at December 31, 2008 that would not be covered by the contribution for past service foreseen for the next five years.

10. ACTUARIAL LIABILITIES OF INSURANCE PLANS**Insurance plans**

Actuarial liabilities represent basic insurance plan commitments related to insurance coverage in effect at December 31 and break down as:

	2008	2007
Provisions for benefit commitments	35 810	33 891
Provisions for pensions to disabled insured persons	38 763	37 107
	<u>74 573</u>	<u>70 998</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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11. COMMITMENTS**General Fund**

The CCQ is committed to long-term leases for office space expiring on various dates up to December 31, 2013. These leases include a five-year renewal option. In some cases, these leases include a five-year renewal option. Lease payments for the year ended in 2008, amount to \$1 836 340 (2007: \$1 779 715). The minimum lease payments for the next five years are:

2009	1 847
2010	883
2011	270
2012	57
2013	2
	3 059

Supplemental Pension Plan

Under the Regulation respecting complementary social benefit plans in the construction industry, any amount owing to a contributor or beneficiary affected by the termination of the pension plan must be remitted to the Ministère du Revenu unless it is claimed within three years of the date the deadline expired. The amount may, however, be remitted before this period expires if the only remaining entitlements to be liquidated are owing to contributors or beneficiaries that cannot be located. In recent years, CCQ payments to the Ministère du Revenu were made approximately every three years. An agreement was concluded in 2006 for the CCQ to make its payments annually. No payment was made in fiscal 2008 since CCQ management is still trying to determine the amounts to be paid in 2009 for fiscal 2007 and in 2010 for fiscal 2008 and 2009.

12. CONTINGENCIES

Legal proceedings against the CCQ, in the amount of \$4 521 078, were under way the date the financial statements were prepared. For these disputes, the CCQ maintains provisions, which are regularly revised, on a case by case basis, when the foreseeable loss is likely and can be reasonably estimated using the information available at the time.

13. ASSETS (LIABILITIES) FOR BENEFITS ARISING FROM FUTURE SOCIAL BENEFITS

The CCQ offers two defined-contribution pension plans for all of its unionized and non-unionized workers (not covered by collective agreements). It also offers supplemental social benefits plans on retirement. These plans comprise retirement allowances paid on retirement, health insurance coverage plans and life insurance benefits on death.

In December 2005, the CCQ signed an agreement amending the Regulation respecting the Supplemental Pension Plan of Unionized CCQ Workers. Under it, any additional contributions paid by the CCQ to finance the plan's deficit or enable full financing of the fiscal year's contribution are reimbursed to it as soon as surplus assets are posted by the Plan. In fiscal 2008, additional contributions paid totalled \$2 275 223 (2007: \$2 272 651), \$266 963 of which was considered paid in advance (2007: \$1 121 201).

The actuarial evaluations based on the most recent measurements for the plans offered were prepared at July 1, 2007 and October 15, 2008 for the other plans. The next actuarial evaluations will be performed during fiscal 2010.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
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13. ASSETS (LIABILITIES) FOR BENEFITS ARISING FROM FUTURE SOCIAL BENEFITS (cont'd)

Plan assets of the Pension plan are held in trust and their fair value breakdown was as follows on the measurement date, that is, December 31:

<i>(as a percentage)</i>	2008	2007
Shares	54	63
Bonds	42	33
Other	4	4

The main actuarial assumptions used to determine the cost of profits and the obligation for defined benefits are as follows (average weighted assumptions at December 31):

Actuarial evaluations

<i>(as a percentage)</i>	2008	2007	2008	2007
	Pension plans		Other plans	
Capitalization rate	7.50	5.55	7.50	5.15
Rate of return projected on plan assets, long-term	7.00	7.00		
Remuneration growth rate	2.25 to 4.25	2.25 to 4.25	2.25 to 4.25	2.25 to 4.25

For measurement purposes, the average annual hypothetical growth rate of health care covered by the participant was set in 2009 at 7.5% for prescription drugs, to be gradually reduced to 2.5% after 15 years, 2.5% for hospital costs and 4.5% for other expenses, to be gradually reduced to 2.5% after 10 years.

The converging of the plan capitalization situation and the amounts posted to the balance sheet resembled the following at December 31:

Capitalization situation

	2008	2007	2008	2007
	Pension plans		Other plans	
Fair value of plan assets	240 207	292 142		
Obligations for benefits accrued	280 561	309 298	51 784	67 545
Capitalization situation – (deficit)	(40 354)	(17 156)	(51 784)	(67 545)
Unamortized net actuarial gain (actuarial loss)	(66 916)	(40 756)	11 525	(9 777)
Unamortized cost of past services	3 382	3 845		
Asset for benefits accrued (liability)	<u>23 180</u>	<u>19 755</u>	<u>(63 309)</u>	<u>(57 768)</u>

According to the actuarial calculations performed for fiscal 2008, the cost of CCQ social benefits breaks down as:

	2008	2007	2008	2007
	Pension plans		Other plans	
Cost of social benefits recognized in the fiscal year	<u>3 700</u>	<u>5 789</u>	<u>7 873</u>	<u>8 628</u>

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

13. ASSETS (LIABILITIES) FOR BENEFITS ARISING FROM FUTURE SOCIAL BENEFITS (cont'd)

The other information concerning the CCQ's predefined benefit plans is:

	2008	2007	2008	2007
	Pension plans		Other plans	
Employer contributions	6 271	5 883		
Employee contributions	5 078	2 570		
Benefits paid	14 570	13 782	2 331	1 883

14. FINANCIAL INSTRUMENTS**Risks inherent in financial instruments**

Management has implemented control and management policies and processes to insure the risks inherent in financial instruments.

The CCQ has investment policies for investments managed internally for the General Fund, Supplemental pension plan, insurance and trust fund plans and investments entrusted to the Caisse de dépôt et placement du Québec. These policies set the proportions in which the amounts available in the different asset categories are to be invested and allow follow-up to be conducted on fund performance and managers.

Market risk

The market risk corresponds to the financial losses the CCQ could incur due to fluctuations in financial instrument fair values following changes in the parameters affecting this evaluation, notably interest rates, exchange rates and stock market prices.

INTERNALLY MANAGED INVESTMENTS**Interest rate risk**

The interest rate risk defines the possibility of a financial instrument's fair value or future cash flows fluctuating due to changes in market interest rates.

At December 31, 2008, if the interest rate in effect had increased or decreased by 1% and all other variables had remained unchanged, unrealized investment income would have decreased or increased by \$20 537 000.

Sensitivity to interest rate fluctuation was calculated using the weighted average of the duration of the bond portfolio at December 31, 2008.

Exchange risk

The exchange rate risk corresponds to the risk of a financial instrument's fair value or future cash flows fluctuating due to changes in foreign currency prices. At December 31, 2008, if the Canadian dollar had increased or decreased by 1% compared to other currencies and all other variables had remained unchanged, unrealized investment income would have decreased or increased by \$1 200 000 For investments in foreign currencies not covered by foreign exchange contracts.

Sensitivity to fluctuation in the Canadian dollar's value was calculated by establishing the value of the assets exposed to an exchange risk at December 31, 2008 and applying a $\pm 1\%$ variation to the value established. This theoretical calculation does not reflect currency interrelations. The only variable is the Canadian dollar's fluctuation.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

14. FINANCIAL INSTRUMENTS (cont'd)**Fair value of financial instruments**

The CCQ is exposed to fluctuations in exchange rates on investments held in foreign currency and took recourse to foreign exchange forward contracts in order to manage its exchange risk. The table below presents the nominal reference amounts and fair values of exchange forward contracts:

	2008		2007	
	Nominal reference amount	Fair value	Nominal reference amount	Fair value
Selling positions	264 307	929	2 097 050	1 820

The fair value reflects the estimated amounts that the CCQ would receive at the settlement of favourable contracts or would be forced to pay in order to terminate contracts that were not favourable the date the financial information was presented. The fair value corresponds to the market rate.

Term exchange contracts, presented under "Assets (liabilities) linked to derivative financial instruments", mature within three months and break down as follows for the various funds holding investments in foreign currencies:

	2008	2007
Basic insurance plans	609	1 137
Supplemental insurance plans	50	99
Training Plan Fund – Work sectors	185	413
Training Plan Fund – Residential sector	35	78
Holiday and Vacation Pay Fund	50	93
	929	1 820

Price risk

The price risk corresponds to the risk of a financial instrument's fair value or future cash flows fluctuating due to changes in market prices (other than those resulting from interest rate or exchange risks) caused by factors specific to the instrument in question or its issuer or factors affecting all similar financial instruments negotiated on the market.

At December 31, 2008, if stock market prices had increased or decreased by 10% and all other variables had remained unchanged, unrealized investment income would have decreased or increased by \$35 939 000.

INVESTMENTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

Interest rate, exchange rate and price risk

The Caisse de dépôt et placement du Québec (CDPQ) manages all market risks in an integrated, global manner so that the main elements contributing to the risk, such as activity sectors, countries and issuers, are taken into account in the market risk analysis.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

14. FINANCIAL INSTRUMENTS (cont'd)

INVESTMENTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

Interest rate, exchange rate and price risk (cont'd)

The CDPQ can use derivative financial instruments negotiated on the stock market or directly with banks or stock brokers to manage the market risks to which it is exposed.

The CDPQ's market risk is measured using value-at-risk (VAR), which is based on a statistical evaluation of the volatility of the market value of each position and its correlations. The VAR is a statistical technique used to assess the worst possible loss anticipated in a period given a certain confidence level. The CDPQ uses a confidence level of 84% for its calculations. The VAR is calculated for each instrument contained in all specialized portfolios and the results are aggregated for the global portfolio.

The CDPQ uses the historical simulation method to estimate VAR. An 800-day horizon for observing risk factors, such as exchange rate, interest rate and financial asset price fluctuation, is used to estimate yield volatility and its correlation among assets. The historical simulation method is based primarily on the assumption that the future will resemble the past. This method requires historical data for all risk factors needed to estimate instrument yield. Should some of these historical data be missing, substitution measurement methods are used.

Two types of risk are calculated: absolute risk and active risk. Absolute risk, or absolute VAR, of the CDPQ's reference portfolio (overall target portfolio for depositors) is the result of the risk (volatility) of reference indices of the categories of asset comprising this portfolio. For example, if depositors choose globally to increase the proportion of shares in their respective reference portfolios, this risk will automatically be increased, given the greater volatility of this category of asset. Hence, the anticipated yield would also increase significantly. The absolute risk of the global portfolio (composed of real investments) corresponds to the risk (volatility) of the positions composing the CDPQ's global portfolio. The absolute risk of the global portfolio and of the reference portfolio are calculated using the same method but cover different portfolios, that is, the global portfolio actually invested by CDPQ and the reference portfolio targeted by depositors.

The active risk, or active management VAR, represents the possibility that the CDPQ's yield differs from that of its reference portfolio through active management of its global portfolio. The higher the risk, the more the global portfolio's absolute yield will differ from the yield of the reference portfolio.

The absolute risk of the CDPQ's reference portfolio, the absolute risk of the global portfolio and active risk are measured on an ongoing basis.

VAR covers almost all assets held by the CDPQ. The estimated market risk for instruments not covered by the VAR of the global portfolio's active management is monitored quarterly by its Board of Directors' risk management committee.

At December 31, 2008, the absolute risk and active risk of the general account, pensioners' account and supplemental account for funds entrusted to the CDPQ were 991 and 393, 988 and 390 and 949 and 336 centesimal points respectively.

Interest rate, exchange and price risks are integrated into overall measurement of VAR.

Credit risk

The use of financial instruments can result in a credit risk corresponding to the risk of financial losses due to a party's inability or refusal to completely cover its contractual obligations,

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

14. INSTRUMENTS FINANCIERS (suite)

INVESTMENTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

Credit risk (cont'd)

The CCQ could be affected by unfavourable fluctuations in financial instrument value due to a change in the parameters underlying their evaluation and by the concentration risk that arises when investments are made in one and the same entity. The main risk in this regard concerns the fluctuation in investment values. To manage these risks, the CCQ has investment policies designed to optimize yield while ensuring an acceptable level of risk.

The CDPQ established a concentration limit per issue group of 3% of its total assets, apart from securities issued by the governments of Canada, Québec, or another Canadian province or territory or by their mandatory departments and agencies, which are not subject to a concentration limit. Sovereign issues with a AAA credit rating are also excluded from this concentration limit.

Liquidity risk

The liquidity risk is the risk that the General Fund, Supplemental Pension Plans Account, insurance plans and trust funds may not be able to honour their financial obligations. To offset this risk, liquidity forecasts are performed daily, monthly and annually and the necessary transfers made. Further, to ensure that its liquidity requirements are covered, the CCQ has a \$7 000 000 credit facility. Should a bank overdraft linked to one or more trust funds occur, the financial institutions can advance substantial amounts for a period of no more than a few days, normally.

15. CAPITAL MANAGEMENT

General Fund

The General Fund was established to report on the CCQ's operations related to the application of the collective agreements concluded under the *Act respecting labour relations, vocational training and manpower management in the construction industry* (R.S.Q., c. R-20). This includes the administration of any complementary social benefits plan in the construction industry. This Act dictates that responsibilities and administrative practices tied to using and managing funds that come from the employer and construction industry employee contributions.

Supplemental pension plan and insurance plans

The *Regulation respecting complementary social benefits plans in the construction industry* (R-20, r.14.01) provides the framework for the responsibilities and practices tied to using and managing these funds. This Regulation was founded based on the industry's collective agreements and, in the case of the Supplemental pension plan, the *Supplemental Pension Plans Act* (R.S.Q., c. R-15.1). The capital used comes from the employer and construction industry employee contributions.

The other funds

The other funds were established to report on contributions received, in keeping with the collective agreements in effect, to finance each fund's specific activities, as described in Note 2.4 of the financial statements.

During fiscal 2008, the CCQ complied with the capital management requirements stipulated in the *Act respecting Labour relations, vocational training and workforce management in the construction industry* (R.S.Q., c. R-20), by the Regulation respecting complementary social benefits plans in the construction industry and the collective agreements governing it.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended December 31, 2008
(in thousands of dollars)

16. EQUITY OF THE SUPPLEMENTAL INSURANCE PLANS

The supplemental insurance plans were cumulated and presented in a single financial statement. As at December 31, the equity of each plan is:

	2008	2007
Electricians	6 097	9 036
Roofers	627	890
Tinsmiths	1 784	2 035
Pipefitters	8 122	9 489
Linemen	3 062	3 253
Fire protection mechanics	670	760
Refrigeration mechanics	(11)	197
Carpenters	(31)	(1)
Worksite mechanics	651	740
Trowel trades	2 548	3 005
	<u>23 519</u>	<u>29 404</u>

17. EQUITY OF THE ELIGIBILITY FUNDS

The eligibility funds were cumulated and presented in a single financial statement. As at December 31, the equity of each fund is:

	2008	2007
Mechanics	44	26
Locksmiths	101	96
Linemen	68	47
Reinforcing steel erectors	198	194
Electricians	1 358	1 238
Tinsmiths	440	392
Boilermakers	306	278
Pipefitters	2 046	1 875
	<u>4 561</u>	<u>4 146</u>

18. RECLASSIFICATION

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**SUPPLEMENTAL PENSION PLAN FOR EMPLOYEES OF THE QUÉBEC CONSTRUCTION INDUSTRY OF QUÉBEC**

ACTUARIAL VALUATION AS AT DECEMBER 31, 2008
 ACTUARIAL OPINION

The Supplemental Pension Plan for Québec construction industry employees was evaluated at December 31, 2008, based on the Regulation respecting complementary social benefit plans in the construction industry in effect on this date and based on data at January 1, 2008.

We certify that in our opinion,

- a) On December 31, 2008, the Plan posted a \$1 664 453 000 shortfall in the asset's actuarial value from the value shown for general account and pensions' account benefits.
- b) The pension fund was partly solvable at December 31, 2008. If the Plan were to be dissolved on December 31, 2008, the total value of the assets for the three accounts would be less than the total value of the commitments of the three accounts.
- c) The amount of amortization contributions appropriated to financing the shortfall in the actuarial value of assets over the current value of benefits breaks down as follows, in keeping with the last actuarial evaluation on a capitalization basis:

Year	Apprentices \$/hour	Journeypersons \$/hour
From January 1, 2009 to December 31, 2018	2.015	2.015

- d) The current value of amortization contributions at December 31, 2008 is \$1 574 738 000.
- e) The *Supplemental Pension Plans Act* states that the amortization period for actuarial deficits for solvency purposes may not exceed five years. Application of the amortization period foreseen by law would result in an employer contribution for past service of \$6.564 per hour worked rather than \$2.015 for an apprentice or journeyman in order to amortize the solvency deficiency at December 31, 2008.
- f) The data on which the evaluation is based is sufficient and reliable for evaluation purposes.
- g) Overall, the assumptions are appropriate for evaluation purposes.
- h) The methods used in the evaluation are appropriate for evaluation purposes.
- i) Given that the Plan is an inter-enterprise pension plan, this evaluation meets the requirements of Section 4100 of the CICA handbook.

This report and the opinions it contains were produced in accordance with generally accepted actuarial practices.

Claude Lockhead, FICA, FSA
 Principal Vice-president

Aon Conseil
 700, rue De La Gauchetière Ouest
 Bureau 1900
 Montréal (Québec) H3B 0A7

May 19, 2009

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

ACTUARIAL OPINION ON THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

ACTUARIAL OPINION ON THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
FOR INSURANCE PLANS OF QUÉBEC CONSTRUCTION INDUSTRY EMPLOYEES BASED ON THE REPORT
“RAPPORT SUR L’ÉVALUATION, AUX FINS COMPTABLES, DES PASSIFS ACTUARIELS AU 31 DÉCEMBRE 2008”.

I assessed the actuarial liabilities shown in the balance sheet of the financial statements of the Insurance plans of Québec construction industry employees as at December 31, 2008 in keeping with recognized accounting practices, notably by selecting appropriate assumptions and evaluation methods.

In my opinion, the actuarial liabilities of \$74 573 000 constitute appropriate provision for the obligations of these insurance plans towards the insured parties and are accurately presented in the financial statements.

François Boisvenue, FICA, FSA
Vice-President

Groupe-conseil Aon
700, rue De La Gauchetière
Bureau 1900
Montréal (Québec) H3B 0A7

Montréal, June 8, 2009

COMMISSION DE LA CONSTRUCTION DU QUÉBEC

MANAGEMENT'S REPORT

The financial statements of the General Fund, Supplemental Pension Plans Fund, Insurance Plans and Commission de la construction du Québec (CCQ) Trust Funds are the responsibility of management and were approved by the Board of Directors.

The financial statements were prepared by management in keeping with Canadian generally accepted accounting principles and contain amounts based on judgements and estimates. Management establishes these amounts reasonably to ensure that the financial statements are accurate in all aspects. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting and administrative controls and quality financial data presentation systems to provide reasonable assurance that financial information is relevant, accurate and reliable and that CCQ assets are accurately reported and safeguarded.

The Board of Directors must oversee the manner in which management performs its financial reporting duties in presenting the information and is ultimately responsible for examining and approving the financial statements. It carries out these duties through the auditing committee.

The CCQ recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The actuaries of the firm Groupe-conseil Aon were named actuarial consultants by the CCQ, in keeping with the *Regulation respecting complementary social benefits plans in the construction industry* (R-20, r. 14.01) to value the commitments and actuarial reserves indicated in the respective financial statements of the Supplemental Pension Plan Fund and the Insurance Plans Fund. They presented their conclusions to the CCQ.

The auditing committee is appointed by the Board of Directors and its members do not belong to management. The committee periodically meets with management and the internal auditing and organizational performance support department to discuss the internal controls exercised on the process of reporting financial information, auditing questions and questions regarding presentation of the financial information to ensure that each party properly fulfils its duties and examine the financial statements and outside auditor's report. The auditing committee shares its comments with the Board when the latter approves the publication of the financial statements produced for it.

The Auditor General of Québec has audited the financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee.

André Ménard
President-Chief Executive Officer

April 24, 2009 (May 19, 2009 for Note 9)

COMMISSION DE LA CONSTRUCTION DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheets of the Commission de la construction du Québec's General Fund and the following trust funds at December 31, 2008: Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector and the statements of operations, change in equity and cash flows for the fiscal year then ended.

I have also audited the statement of net assets available for the service of the supplemental pension plan benefits and the balance sheets and statements of assets and liabilities for the insurance plans and the following trust funds as at December 31, 2008, and the statements of change in net available assets for the service of benefits, their equity and their assets during the fiscal year then ended.

Trust Funds:

- Training plan fund – Work sectors;
- Training plan fund – Residential sector;
- Holiday and Vacation Pay Fund;
- Back Pay Fund;
- Employer Contributions Fund;
- Union Assessment Fund;
- Residential Sector Contributions Fund;
- Union Training Contribution Fund;
- Special Compensation Fund;
- Eligibility Fund.

These financial statements are the responsibility of CCQ management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the funds and plans as at December 31, 2008 and the results of the General Fund, Training Plan Fund – Work Sectors and Training Plan Fund – Residential Sector's operations and cash flows and the change in net assets available for the service of supplemental pension plan benefits and the equity or assets of the insurance plans and other trust funds for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), I declare that, in my opinion, with the exception of the changes made to accounting policies for financial instruments disclosed and explained in Note 4, these principles were applied on a basis consistent with that of the preceding year.

The Supplemental Pension Plans Act (R.S.Q., c. R-15.1) provides for pension plan financing and solvability evaluation. As mentioned in Note 2.2, the CCQ does not apply these provisions. The impact of this derogation on establishing employer contributions to the Supplemental Pension Plan for Québec construction industry employees is disclosed in Note 9.4.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 24, 2009 (May 19, 2009 for Note 9)

COMMISSION DES LÉSIONS PROFESSIONNELLES
(R.S.Q., c.A-3.001)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Commission de la santé et de la sécurité du travail contribution	\$54 117 520	\$54 494 138
Interest	343 681	417 620
Publications and services	<u>9 214</u>	<u>8 813</u>
	<u>54 470 415</u>	<u>54 920 571</u>
EXPENSES		
Salaries and fringe benefits	35 943 783	35 166 029
Transportation and communication	2 850 785	2 781 297
Professional services	7 707 570	7 194 877
Rent and maintenance	5 194 996	5 233 442
Supplies	529 054	478 755
Amortization of capital assets	1 393 117	1 564 849
Interest on long-term debt	14 886	30 281
Other	<u>18 010</u>	<u>10 633</u>
	<u>53 652 201</u>	<u>52 460 163</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$818 214</u></u>	<u><u>\$2 460 408</u></u>

The notes are an integral part of these financial statements.

DEFICIT FUND BALANCE STATEMENT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$(2 928 051)	\$(5 388 459)
Excess revenues over expenses for the fiscal year	<u>818 214</u>	<u>2 460 408</u>
CLOSING BALANCE	<u><u>\$(2 109 837)</u></u>	<u><u>\$(2 928 051)</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLESBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$11 225 685	\$9 948 516
Accounts receivable	75 983	25 033
Interest accrued receivable	136 507	135 632
Prepaid expenses	<u>679 671</u>	<u>728 363</u>
	12 117 846	10 837 544
Capital assets (Note 4)	<u>3 930 543</u>	<u>3 345 897</u>
	<u><u>\$16 048 389</u></u>	<u><u>\$14 183 441</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$3 034 604	\$1 731 148
Instalments on long-term debt		175 298
Provision for transition allowances (Note 6)	1 623 267	1 771 370
Provision for vacation time (Note 6)	<u>3 821 468</u>	<u>3 803 805</u>
	8 479 339	7 481 621
Long-term debt		369 496
Provision for transition allowances (Note 6)	2 053 423	2 072 538
Provision for sick leave (Note 6)	<u>7 625 464</u>	<u>7 187 837</u>
	18 158 226	17 111 492
FUND DEFICIT	<u>(2 109 837)</u>	<u>(2 928 051)</u>
	<u><u>\$16 048 389</u></u>	<u><u>\$14 183 441</u></u>
COMMITMENTS (Note 7)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
Jean-François Clément, Chairman
Francis Lachance, Executive Director, Administration

COMMISSION DES LÉSIONS PROFESSIONNELLES**STATEMENT OF CASH FLOWS**
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$818 214	\$2 460 408
Adjustments for:		
Amortization of capital assets	1 393 117	1 564 849
Loss on proceeds from sale of capital assets	<u>9 562</u>	<u>1 159</u>
	2 220 893	4 026 416
Variations in non-cash items related to operations (Note 5)	<u>734 323</u>	<u>82 830</u>
Cash flows from operating activities	<u>2 955 216</u>	<u>4 109 246</u>
INVESTMENT ACTIVITIES		
Proceeds from sale of capital assets	3 564	
Acquisition of capital assets	<u>(1 136 817)</u>	<u>(1 390 707)</u>
Cash flows used for investment activities	<u>(1 133 253)</u>	<u>(1 390 707)</u>
FINANCING ACTIVITIES		
Repayment of long-term debt and cash flows used for financing activities	<u>(544 794)</u>	<u>(185 084)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1 277 169	2 533 455
OPENING CASH AND CASH EQUIVALENTS	<u>9 948 516</u>	<u>7 415 061</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 5)	<u><u>\$11 225 685</u></u>	<u><u>\$9 948 516</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION, PURPOSE AND FINANCING

The Commission des lésions professionnelles (Commission), a legal person under the Civil Code, created under the *Act respecting industrial accidents and occupational diseases* (R.S.Q., c. A-3.001), is mandated to hear and deal with cases contesting decisions rendered by the Commission de la santé et de la sécurité du travail following an administrative review.

The amounts required by the Commission for its operations are taken from the Commission's fund, which contains the sums paid into it by the Commission de la santé et de la sécurité du travail according to terms and conditions determined by the Government.

Under federal and provincial income tax legislation, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

Beginning this fiscal year, to prepare its financial statements, the Commission gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets, the provision for sick leave and the provision for transition allowances established on an actuarial basis. Real results may differ from these estimates.

Revenue reporting

The Commission de la santé et de la sécurité du travail's contribution is posted to proceeds when it is received or receivable if its reception is relatively certain.

Amortization of capital assets

When market conditions show that a capital asset no longer contributes to the Commission's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. Decline in capital asset value is posted to expenses in the statement of operations.

Cash and cash equivalents

It is the Commission's policy to present bank balances and short-term investments maturing within three months of the date they were acquired or that are convertible to cash at any time as cash and cash equivalents.

Capital assets

Capital assets are recorded at cost and amortized over their expected service life using the straight-line method and the following rates:

Office furniture and equipment	20.0%
Automotive equipment	20.0%
Data processing equipment	33.3%
Leasehold improvements	20.0%
Software	33.3%
Computer system developments	33.3%

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Provision for transition allowances

The long-term obligations related to transition allowances accumulated by commissioners are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Commission and the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits by the commissioners, that is, based on their accumulation of one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, the Commission has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change does not affect the Commission's results or deficit balance. The accounting policy affected by this change in accounting framework is described below.

Capital asset depreciation

The decrease in capital assets' value is based on their capacity to supply goods and services, or on the value of future economic benefits rather than evaluation of the unrealized future cash flows that the capital asset will generate.

4. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$4 334 488	\$3 702 857	\$631 631
Automotive equipment	82 978	44 182	38 796
Computer equipment	4 224 928	3 640 330	584 598
Leasehold improvements	5 893 703	3 698 571	2 195 132
Software	684 775	541 158	143 617
Computer system developments	564 241	227 472	336 769
	<u>\$15 785 113</u>	<u>\$11 854 570</u>	<u>\$3 930 543</u>
			<u>\$3 345 897</u>

Leasehold improvements whose net value is \$650 578 and computer system developments whose net value is \$328 325 (2008: \$3 040 in computer equipment) were not amortized because they were not being used at fiscal year-end.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. CASH FLOWS

	2009	2008
Change in non-cash elements linked to operations		
Accounts receivable	\$(50 950)	\$7 527
Accrued interest receivable	(875)	(51 251)
Prepaid expenses	48 692	(67 921)
Accounts payable and accrued liabilities	449 384	(54 972)
Provision for transition allowances	(167 218)	49 543
Provision for sick leave and vacation time	455 290	199 904
	<u>\$734 323</u>	<u>\$82 830</u>
Composition of cash and cash equivalents		
Cash on hand	\$4 225 685	\$4 948 516
Term deposit (rate: 3.50%) (2008: 4.28%)	7 000 000	5 000 000
	<u>\$11 225 685</u>	<u>\$9 948 516</u>

Interest payments on the long-term debt for the fiscal year totalled \$14 886 (2008: \$30 662).

At March 31, 2009, the item "Accounts payable and accrued liabilities" included the acquisition of capital assets of \$1 123 588 (2008: \$269 516).

6. FUTURE FRINGE BENEFITS

Pension plans

Commission staff participates in the Government and Public Employees Retirement Plan (RREGOP), Retirement Plan for Senior Officials (RPSO), Pension Plan for Peace Officers in Correctional Services (PPPOCS), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

Another employee participates in a Registered Retirement Savings Plan because he does not belong to the Public Service. The Commission pays him an amount equivalent to what it pays the other employees.

The Commission's contributions charged to the year-end statement totalled \$2 024 872 (2008: \$1 726 542). Its liability towards these Government plans is restricted to its employer contributions.

Provision for transition allowances

During the fiscal year, the Commission changed the method used to evaluate obligations related to transition allowances. Since fiscal 2009, these obligations have been evaluated using an actuarial method based on defined-benefit breakdown. This accounting change decreased the obligation's value by \$264 315 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results.

Transition allowances are payable to commissioners, apart from a commissioner on leave who does not receive his total pay from the public service, whose mandate has not been renewed or who do not seek mandate renewal. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners and Order-in-Council 1488-96 of December 4, 1996 and its subsequent amendments, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

COMMISSION DES LÉSIONS PROFESSIONNELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. FUTURE FRINGE BENEFITS (cont'd)****Provision for transition allowances (cont'd)**

	2009	2008
Beginning balance	\$3 843 908	\$3 794 365
Annual expenses	64 376	276 595
Benefits paid during the year	<u>(231 594)</u>	<u>(227 052)</u>
Closing balance	<u>\$3 676 690</u>	<u>\$3 843 908</u>
Short-term provision	\$1 623 267	\$1 771 370
Long-term provision	<u>2 053 423</u>	<u>2 072 538</u>
	<u>\$3 676 690</u>	<u>\$3 843 908</u>

Evaluations and subsequent estimates

The provision for transition allowances was actualized using the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	of 2 to 3.25%
Average discount rates (rates for Québec bonds maturing within ten years)	4.54%
Average remaining service period of active commissioners	7.3 years

Provision for sick leave

During the fiscal year, the Commission changed the method used to evaluate obligations related to sick leave. Since fiscal 2009, these obligations have been evaluated using an actuarial method based on defined-benefit breakdown. This accounting change decreased the obligation's value by \$34 085 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results.

	2009	2008
Beginning balance	\$7 187 837	\$6 936 677
Annual expenses	1 565 871	1 273 408
Benefits paid during the year	<u>(1 128 244)</u>	<u>(1 022 248)</u>
Closing balance	<u>\$7 625 464</u>	<u>\$7 187 837</u>

The Commission has a sick leave accumulation program, which results in long-term obligations whose costs the Commission bears in their entirety.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure.

Sick leave accumulation program obligations increase as employees render services to the Commission. The value of this obligation is established using a method that distributes program costs over the duration of active employees' remaining service period.

COMMISSION DES LÉSIONS PROFESSIONNELLESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. FUTURE FRINGE BENEFITS (cont'd)****Evaluations and subsequent estimates**

The provision for sick leave was actualized using the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	of 2 to 3.25%
Average discount rates (rates for Québec bonds maturing within ten years)	4.54%
Average remaining service period of active commissioners	7.5 years

Provision for vacation time

	2009	2008
Beginning balance	\$3 803 805	\$3 855 061
Annual expenses	3 108 483	2 945 040
Benefits paid during the year	<u>(3 090 820)</u>	<u>(2 996 296)</u>
Closing balance	<u>\$3 821 468</u>	<u>\$3 803 805</u>

7. COMMITMENTS

Minimal contractual commitments for operating lease and space rental contracts breakdown was at \$98 529 for the next fiscal year.

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Commission did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

COMMISSION DES LÉSIONS PROFESSIONNELLES

MANAGEMENT'S REPORT

The financial statements of the Commission des lésions professionnelles were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Each manager performs a monthly analysis and verification of his administrative unit's budgetary position.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties.

The Auditor General of Québec has audited the Commission's financial statements in accordance with the Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Jean-François Clément
Chairman

Québec, June 17, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des lésions professionnelles as at March 31, 2009, the statements of operations and deficit fund balance and cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted the auditing standards, which requires planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 17, 2009

COMMISSION DES NORMES DU TRAVAIL
(R.S.Q., c. N-1.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> (reworked)
REVENUES		
Employer contributions (Note 4)	\$59 931 750	\$55 129 170
Interest	723 507	996 852
Other (Note 5)	<u>221 726</u>	<u>218 484</u>
	<u>60 876 983</u>	<u>56 344 506</u>
EXPENSES		
Salaries and fringe benefits	33 581 970	32 919 459
Professional and administrative services	3 652 107	3 680 546
Travelling expenses	1 087 776	1 376 455
Telecommunications and mail	1 261 747	1 158 880
Advertising and information	729 140	675 072
Rental - office space, equipment, etc.	3 848 500	3 822 385
Maintenance	814 323	809 092
Supplies	384 145	351 813
Interest	188	4 233
Amortization of capital assets	3 499 650	3 474 712
Net loss on assignment of capital assets	117 415	263
Reimbursement of Commission des relations du travail expenses (Note 6)	<u>7 560 700</u>	<u>7 072 100</u>
	<u>56 537 661</u>	<u>55 345 010</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$4 339 322</u></u>	<u><u>\$999 496</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAILSTATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE		
Previously established balance	\$51 554 052	\$50 670 087
Adjustment		
Adoption of a new method for evaluating the provision for sick leave (Note 3)	<u>192 503</u>	<u>76 972</u>
Adjusted balance	51 746 555	50 747 059
EXCESS OF REVENUES OVER EXPENSES	<u>4 339 322</u>	<u>999 496</u>
CLOSING BALANCE	<u><u>\$56 085 877</u></u>	<u><u>\$51 746 555</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL**BALANCE SHEET**
as at March 31, 2009

	<u>2009</u>	<u>2008</u> (reworked)
ASSETS		
Current assets		
Cash on hand	\$17 131 371	\$914 812
Investments (Note 7)	37 165 210	48 167 560
Accounts receivable	1 808 658	344 779
Accrued interest	27 602	86 477
Prepaid expenses	354 170	367 610
	<u>56 487 011</u>	<u>49 881 238</u>
Capital assets (Note 8)	<u>13 888 140</u>	<u>16 054 623</u>
	<u><u>\$70 375 151</u></u>	<u><u>\$65 935 861</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$2 983 930	\$3 018 775
Claims collected for remittance to employees (Note 11)	236 154	168 257
Provision for vacation time (Note 12)	4 262 077	4 267 130
Sick leave payable in the coming fiscal year (Note 12)	1 312 100	1 407 907
	<u>8 794 261</u>	<u>8 862 069</u>
Provision for sick leave (Note 14)	5 495 013	5 327 237
CUMULATED SURPLUS (Note 13)	<u>56 085 877</u>	<u>51 746 555</u>
	<u><u>\$70 375 151</u></u>	<u><u>\$65 935 861</u></u>
COMMITMENTS (Note 14)		

The notes are an integral part of these financial statements.

On behalf of the Commission,
 Me Gaston Lafleur, ASC
 Member, Board of Directors and
 Chairman, Auditing Committee

Michel Després,
 Attorney, President-Executive Director

COMMISSION DES NORMES DU TRAVAIL

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008 (reworked)
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$4 339 322	\$999 496
Items not affecting cash flows:		
Amortization of immobilisations	3 499 650	3 474 712
Net loss on assignment of capital assets	117 415	263
	<u>7 956 387</u>	<u>4 474 471</u>
Change in non-cash items related to operations:		
Accounts receivable	(1 463 879)	(246 575)
Accrued interest	58 875	33 727
Prepaid expenses	13 440	(143 289)
Accounts payable and accrued liabilities (Note 10)	(6 720)	(156 651)
Claims collected for remittance to employees	67 897	(145 389)
Provision for vacation time	(5 053)	53 690
Provision for sick leave	71 969	4 747
	<u>(1 263 471)</u>	<u>(599 740)</u>
Cash flows from operating activities	<u>6 692 916</u>	<u>3 874 731</u>
INVESTMENT ACTIVITIES		
Net change in investments	(1 100 000)	(11 900 000)
Acquisition of immobilisations (Note 10)	<u>(1 478 707)</u>	<u>(2 569 642)</u>
Cash flows (for) from investment activities	<u>(2 578 707)</u>	<u>(14 469 642)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4 114 209	(10 594 911)
OPENING CASH AND CASH EQUIVALENTS	<u>25 182 372</u>	<u>35 777 283</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u><u>\$29 296 581</u></u>	<u><u>\$25 182 372</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Commission des normes du travail (Commission), established under the *Act respecting labour standards* (R.S.Q., c. N-1.1), is a legal person within the meaning of the Civil Code and has all the general powers of such a legal person.

The Commission oversees the implementation and application of labour standards. More specifically, it informs the population, employees, and employers on matters dealing with labour standards, supervises the application of labour standards and, when necessary, transmits its recommendations to the Minister of Labour. The Commission also receives complaints from employees and must indemnify the latter when provided for in the Act and regulations respecting labour standards, and endeavour to work out agreements between employers and employees concerning their disputes related to the application of said Act and regulations.

Under section 984 of the *Québec Taxation Act* and section 149 of the *Canadian Income Tax Act*, the Commission does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Commission gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are employer contributions, amortization of capital assets, claims collected and to be remitted to employees and the provision for sick leave. Real results may differ from these estimates.

Cash and cash equivalents

It is the Commission's policy to present bank balances and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Investments

Investments are recorded using cost or market method, whichever is less.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method and the following rates:

	Rate
Equipment	20%
Furniture	20%
Automotive equipment	33.33%
Leasehold improvement	20%
Data processing equipment	33.33%
Software	33.33%
Computer systems	10 and 20%

Computer systems in the development stage are amortized when completed and operational.

Amortization of capital assets

When market conditions show that a capital asset no longer contributes to the Commission's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. Net decline in value of capital assets is posted to the fiscal year's results.

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Employer contributions

Annually, the Minister of Revenue remits the amounts it collects as contributions from employers governed by the Act respecting labour standards to the Commission. These contributions, determined jointly with Revenu Québec, are posted based on estimated growth in the payroll subject to contributions for the calendar year preceding the fiscal year end. They remain subject to auditing and, where applicable, the adjustments are posted to contributions for the fiscal year in which they become known.

Claims collected for employees that could not be located

Claims collected from employers for whom employees could not be located are posted to revenues after consideration of a liability equivalent to the highest total amount paid annually to employees deemed unlocatable over the past ten fiscal years. However, the Commission maintains the right of these employees to claim the amounts owing with no deadline.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, the Commission uses the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook to report on its operations. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked.

The accounting policies affected by this change in accounting framework and their impact, where applicable, are disclosed below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer software, computer systems and computer systems being development are now presented under "Capital assets" rather than "Intangible assets". This change did not affect the Commission's results.

Provision for sick leave

As of this fiscal year, the provision for sick leave is based on an actuarial method, whereas previously it was based on the cost of unused sick leave accumulated by employees minus the estimated value of sick days not paid to employees.

COMMISSION DES NORMES DU TRAVAILNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**3. CHANGE IN ACCOUNTING POLICIES (cont'd)**

The retroactive application of this change increase (decreased) the following financial statement items:

	<u>2009</u>	<u>2008</u>
Operations		
Salaries and fringe benefits	\$6 734	\$ (115 531)
Excess of revenues over expenses	(6 734)	115 531

Balance sheet

Provision for sick leave	(185 769)	(192 503)
Cumulated surplus	185 769	192 503

4. EMPLOYER CONTRIBUTIONS

	<u>2009</u>	<u>2008</u>
Estimated contributions for the year	<u>\$57 654 555</u>	<u>\$55 524 460</u>
Increase (decrease) in contributions for previous fiscal years		
2008	614 347	
2007	653 854	(656 367)
2006	487 056	130 217
2005	482 091	119 941
2004	75 131	(904)
1999 to 2003	<u>(35 284)</u>	<u>11 823</u>
	<u>2 277 195</u>	<u>(395 290)</u>
	<u><u>\$59 931 750</u></u>	<u><u>\$55 129 170</u></u>
Estimated growth rate of payroll subject to contributions	<u>2.70 %</u>	<u>3.71 %</u>
Estimated payroll subject to contributions used to determine contributions for the fiscal year (in billions of \$)	<u>72.1</u>	<u>69.4</u>

5. OTHER REVENUES

	<u>2009</u>	<u>2008</u>
Employee seminars	\$143 875	\$146 863
Lump sum amounts on claims collected from employers	39 881	67 545
Sale of publications	3 716	4 076
Claims collected for employees that could not be located (Note 11)	<u>34 254</u>	<u></u>
	<u><u>\$221 726</u></u>	<u><u>\$218 484</u></u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

6. REIMBURSEMENT OF COMMISSION DES RELATIONS DU TRAVAIL EXPENSES

Under section 28.1 of the *Act respecting labour standards*, the Commission contributes to Commission des relations du travail funds to pay expenses incurred under the provisions of this Act regarding recourses against prohibited practices, recourses against unfair dismissal, and psychological harassment. The amount of the Commission des normes du travail contribution is determined by the Gouvernement du Québec after the Minister of Labour consults the Commission. For fiscal 2009, this amount was set at \$7 560 700 (2008: \$7 072 100). The amount of the contribution for fiscal 2010 has not yet been determined.

7. INVESTMENTS

	2009	2008
Term deposits	\$25 000 000	\$24 700 000
Discount notes	5 976 060	22 132 313
Bankers' acceptances	6 189 150	1 335 247
	<u>\$37 165 210</u>	<u>\$48 167 560</u>

Interest rates vary from 0.57% to 0.87% (2008: 3.23% to 3.55%), and investments mature in the coming fiscal year.

8. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Equipment	\$1 717 626	\$1 539 791	\$177 835	\$197 717
Furniture	2 275 008	1 985 751	289 257	618 256
Automotive equipment	23 874	17 286	6 588	13 279
Leasehold improvements	5 917 149	5 287 120	630 029	1 106 260
Data processing equipment	4 250 187	3 607 262	642 925	787 731
Software	665 300	617 109	48 191	83 391
Data processing	<u>22 026 100</u>	<u>10 472 405</u>	<u>11 553 695</u>	<u>12 204 688</u>
	36 875 244	23 526 724	13 348 520	15 011 322
Computer system being developed	<u>539 620</u>		<u>539 620</u>	<u>1 043 301</u>
	<u>\$37 414 864</u>	<u>\$23 526 724</u>	<u>\$13 888 140</u>	<u>\$16 054 623</u>

Capital assets classified under "Equipment" and representing \$17 820 were not amortized, given that they were not operational at fiscal year-end.

9. SHORT-TERM BORROWING

The Commission's Board of Directors authorized short-term borrowings in the form of bank credit lines, promissory notes or bank acceptances up to a maximum of \$3 000 000 for fiscal 2009 (2008: \$5 500 000). Borrowings are negotiated during the fiscal year based on the Commission's cash requirements. Interest paid by the Commission during the fiscal year totalled \$128 (2008: \$3 846). At March 31, 2009 and 2008, the Commission had no short-term borrowings.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The item "Accounts payable and accrued liabilities" includes an amount for acquisition of immobilisations, representing \$292 354 (2008: \$320 479).

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

11. CLAIMS COLLECTED PAYABLE TO EMPLOYEES

	2009	2008
Opening balance	\$168 257	\$313 646
Claims collected by employers	2 248 226	2 696 518
	<u>2 416 483</u>	<u>3 010 164</u>
Claims paid to employees	2 146 075	2 841 907
Transfer to revenues of claims collected for employees that could not be located (Note 5)	34 254	
	<u>2 180 329</u>	<u>2 841 907</u>
Closing balance	<u>\$236 154</u>	<u>\$168 257</u>

At March 31, 2009, claims collected for employees that could not be located totalled \$6 725 (2008: \$19 270).

Transfers to revenues from claims collected for unlocatable employees, over the past ten fiscal years, totalled \$218 274 (2008: \$217 088).

12. FUTURE FRINGE BENEFITS**Pension plans**

Commission staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The Commission's contributions charged to the year-end statement totalled \$1 688 754 (2008: \$1 457 476). Its liability towards these Government plans is restricted to its employer contributions.

Provision for vacation time

	2009	2008
Opening balance	\$4 267 130	\$4 213 440
Expenses	2 934 819	2 931 610
Utilization	<u>(2 939 872)</u>	<u>(2 877 920)</u>
Closing balance	<u>\$4 262 077</u>	<u>\$4 267 130</u>

Provision for sick leave

	2009	2008 (reworked)
Opening balance	\$6 735 144	\$6 730 397
Expenses	1 358 342	1 385 048
Utilization	<u>(1 286 373)</u>	<u>(1 380 301)</u>
	6 807 113	6 735 144
Sick leave payable during the year	<u>1 312 100</u>	<u>(1 407 907)</u>
Closing balance	<u>\$5 495 013</u>	<u>\$5 327 237</u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. FUTURE FRINGE BENEFITS (cont'd)**

Employees may accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure.

Among the assumption used to determine the Commission's provision for sick leave are:

	2009	2008
Discount rate	3.27% to 5.10%	3.67% to 5.10%
Wage growth rate	2.00% to 3.25%	2.00% to 3.25%

13. CUMULATED SURPLUS

The Commission receives approximately 95% of its revenues in the last month of its fiscal year. Its operations are financed, among other things, from its cumulated surplus represented essentially by investments. For example, the \$56 085 877 cumulated surplus as at March 31, 2009 will permit to finance the operating expenses, acquisition of immobilisations and intangible assets anticipated for the first eleven months of the coming year.

14. COMMITMENTS**Agreements with the Gouvernement du Québec**

Under section 6.1 of the *Act respecting labour standards*, the Commission signed an employer contribution collection agreement with Revenu Québec. This agreement, which expired on December 31, 2002, remains in effect until a new agreement is signed. Collection costs posted to results totalled \$438 666 for fiscal 2009 (2008: \$428 385) and are included under "Professional and administrative services".

Other

The Commission is committed under long-term agreements and leases, expiring on various dates until 2014. Minimal contractual agreements payable for operating leases and contracts for the acquisitions of goods and services break down as follows at March 31, 2009:

	Operating lease	Goods and services	Total
2010	\$3 824 044	\$3 248 492	\$7 072 536
2011	37 466	1 115 622	1 153 088
2012	23 976	165 755	189 731
2013	14 383	5 056	19 439
2014	2 884		2 884
	<u>\$3 902 753</u>	<u>\$4 534 925</u>	<u>\$8 437 678</u>

COMMISSION DES NORMES DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

15. CASH AND CASH EQUIVALENTS

The cash and cash equivalents shown in the statement of cash flows include the following amounts posted in the balance sheet:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$17 131 371	\$914 812
Investments maturing three months of the acquisition date and investments negotiable at all times of redeemable without a penalty used in managing cash on hand	<u>12 165 210</u>	<u>24 267 560</u>
	<u>\$29 296 581</u>	<u>\$25 182 372</u>

16. INFORMATION ON FINANCIAL RISKS

The book value of short-term assets and liabilities is a reasonable estimate of their fair value, given that they mature in the near future.

The Commission manages its investment portfolio in keeping with its cash flow needs in order to optimize its interest income.

Management feels that these financial instruments do not expose the Commission to significant interest-rate risks.

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Commission did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

COMMISSION DES NORMES DU TRAVAIL

MANAGEMENT'S REPORT

The financial statements of the Commission des normes du travail were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Commission's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Michel Després
President-Executive Director

Andrée Blanchet, ASC
Vice-President, Management Services

Québec, April 30, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Commission des normes du travail as at March 31, 2009 and the statements of results and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 30, 2009

COMMISSION DES RELATIONS DU TRAVAIL
(R.S.Q., c. C-27)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009	2008 (Adjusted and Note 4)
REVENUES		
Contributions		
Gouvernement du Québec		
Ministère du Travail	\$7 345 300	\$7 833 900
Conseil du Trésor – pay equity		2 606
Commission des normes du travail	7 560 700	7 072 100
Commission de la construction du Québec	1 194 300	1 003 100
Ministère de l'Emploi et de la Solidarité sociale	33 700	33 700
Régie du bâtiment du Québec	33 700	33 700
Corporation des maîtres mécaniciens en tuyauterie du Québec	33 700	33 700
Corporation des maîtres électriciens du Québec	33 700	33 700
Sale of forms and documents	8 700	8 091
Interest	59 777	101 892
Other	21 560	1 400
	<u>16 325 137</u>	<u>16 157 889</u>
EXPENSES		
Salaries and fringe benefits (Note 3)	11 683 028	11 066 064
Transportation and communication	505 358	615 901
Professional and ancillary services	1 758 841	1 387 734
Rent	1 473 454	1 564 396
Furnishings and supplies	113 241	166 414
Interest on the long-term debt	51 026	59 112
Amortization of capital assets	324 578	413 217
Depreciation of capital assets		31 100
Loss on sale of capital assets	1 310	
Doubtful accounts		509
	<u>15 910 836</u>	<u>15 304 447</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$414 301</u></u>	<u><u>\$853 442</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$1 970 095	\$1 132 118
Adjustment	<u>42 535</u>	<u>27 070</u>
Adjusted balance	2 012 630	1 159 188
Excess of revenues over expenses	<u>414 301</u>	<u>853 442</u>
CLOSING BALANCE	<u><u>\$2 426 931</u></u>	<u><u>\$2 012 630</u></u>

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAILBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u> (Adjusted and Note 4)
ASSETS		
Current assets		
Cash on hand	\$600	\$1 100
Accounts receivable	7 630	30 761
Consolidated Revenue Fund advance (Note 5)	<u>7 482 508</u>	<u>6 740 255</u>
	7 490 738	6 772 116
Capital assets (Notes 3 and 6)	<u>1 790 585</u>	<u>1 579 068</u>
	<u><u>\$9 281 323</u></u>	<u><u>\$8 351 184</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$940 386	\$944 627
Short-term portion of the long-term debt (Note 8)	<u>123 753</u>	<u>130 315</u>
	1 064 139	1 074 942
Provision for transition allowances (Note 9)	1 528 724	1 162 071
Provision for sick leave and vacation time (Notes 3 and 9)	3 289 323	3 078 586
Long-term debt (Note 8)	<u>972 206</u>	<u>1 022 955</u>
	6 854 392	6 338 554
CUMULATED SURPLUS	<u>2 426 931</u>	<u>2 012 630</u>
	<u><u>\$9 281 323</u></u>	<u><u>\$8 351 184</u></u>

COMMITMENTS (Note 11)**SUBSEQUENT EVENT** (Note 13)

The notes are an integral part of these financial statements.

On behalf of the Commission,
Andrée St-Georges, Chairman

COMMISSION DES RELATIONS DU TRAVAIL

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008 (Adjusted and Note 4)
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$414 301	\$853 442
Items not affecting cash flows:		
Amortization of capital assets	324 578	413 217
Decline in value of capital assets		31 100
Loss on sale of capital assets	1 310	
Net change in non-cash items related to operations:		
Accounts receivable	23 131	15 534
Accounts payable and accrued liabilities (excluding amount related to capital assets)	(15 765)	316 001
Net change in provisions for:		
Transition allowances	366 653	92 188
Sick leave and vacation time	210 737	(285 632)
Cash flows related to operating activities	1 324 945	1 435 850
INVESTMENT ACTIVITIES		
Disbursements related to capital assets acquisitions	(525 881)	(164 806)
Income – Amount owed by the Gouvernement du Québec		270 885
Cash flows related to investment activities	(525 881)	106 079
FINANCING ACTIVITIES		
Long-term borrowing	73 004	
Long-term debt repayment	(130 315)	(189 893)
Cash flows related to financing activities	(57 311)	(189 893)
INCREASE IN CASH AND CASH EQUIVALENTS	741 753	1 352 036
OPENING CASH AND CASH EQUIVALENTS	6 741 355	5 389 319
CLOSING CASH AND CASH EQUIVALENTS (Note 10)	\$7 483 108	\$6 741 355

The notes are an integral part of these financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION, PURPOSE AND FINANCEMENT

The Commission des relations du travail (Commission) was constituted under the *Labour Code* (R.S.Q., c. C-27) and mandated to hear and have access to a range of recourses linked to employment and labour relations in Québec. It is responsible for ensuring that the *Labour Code* is applied diligently and effectively, and carrying out the other duties envisaged under the Code, the *Act respecting labour standards* (R.S.Q., c. N-1.1) and the 26 or so other pieces of legislation giving it jurisdiction. It also has the power to issue orders and help parties reach a negotiated settlement by offering pre-ruling reconciliation services.

Commission financing comprised the following amounts:

- sums paid by the Minister of Labour under funds allotted by Parliament for this purpose;
- amounts paid by the Commission des normes du travail under section 28.1 of the *Act respecting labour standards* (R.S.Q., c. N-1.1);
- amounts paid by the Commission de la construction du Québec under section 8.1 of the *Act respecting labour relations*, vocational training and workforce management in the construction industry (c. R-20);
- amounts paid by the Commission de la construction du Québec, Régie du bâtiment du Québec, Minister of Employment and Social Solidarity and two mandatory corporations contemplated in section 129.3 of the *Building Act* (Chapter B) whose amounts and terms of payment are determined, in both cases, by the Government;
- amounts collected by applying the rate governing dues, honoraria and other fees related to requests, complaints, recourses or documents tabled with the Commission or to services rendered by it.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Commission gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates are the service life of capital assets and the provisions for the transition allowance, sick leave and vacation time. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method according to their respective service lives:

Leasehold improvements	5 to 15 years
Office furniture	5 years
Computer material and equipment	3 to 5 years
Computer system development	5 years

A system's amortization begins the month after it becomes operational.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Depreciation of capital assets**

When the situation indicates that a capital asset no longer contributes to the Commission's capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its net book value, its cost is reduced to reflect this decline. Capital asset-related losses are posted to expenses in the statement of operations.

Revenue reporting

Contributions are reported as revenues when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Commission lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Cash and cash equivalents

It is the Commission's policy to present bank balances and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

3. CHANGES IN ACCOUNTING POLICIES**Change in accounting policy***Provision for sick leave*

As of this fiscal year, the provision for sick leave is based on an actuarial method, whereas previously it was based on the cost of unused sick leave accumulated by employees minus the estimated value of days for which employees were not paid.

The retroactive application of this change increased (decreased) the following items in the financial statements:

	<u>2008</u>
Operations	
Salaries and fringe benefits	\$(15 465)
Excess of revenues over expenses	15 465
Balance sheet	
Provision for sick leave	(42 535)
Opening cumulated surplus	27 070
Closing cumulated surplus	42 535

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. CHANGES IN ACCOUNTING POLICIES (cont'd)**Change in accounting framework**

Since April 1, 2008, at the Government's request, the Commission has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The impacts of changing accounting framework are reported retroactively with restatement of the comparative financial statements.

The accounting policies affected by this change in accounting framework are disclosed below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Capital assets and intangible assets have been grouped under a single item: "Capital assets". The treatment applied to this item for the current fiscal year is the same as that used last year.

Depreciation of capital assets

The decline in the capital assets' value is based on their capacity to provide goods or services or the value of future economic benefits rather than the evaluation of the unrealized future cash flows the capital asset will generate.

4. INTEGRATION OF THE RESPONSIBILITIES OF THE COMMISSIONER OF THE CONSTRUCTION INDUSTRY

Under the *Act to amend the Labour Code and other legislative provisions* (2006, c. 58), the responsibilities of the Commissioner of the Construction Industry were integrated into those of the Commission on April 1, 2008. The total assets and liabilities transferred to the Commission on this date are as follows:

	<u>2008</u>
Total assets	\$373 407
Total liabilities	333 942

In addition to the adjustment to the financial statements, disclosed in Note 3, the comparative figures for the 2008 financial statements were restated to reflect the integration of the Commissioner of the Construction Industry.

5. CONSOLIDATED REVENUE FUND ADVANCE

The advance to the Consolidated Revenue Fund bears interest at the prime rate (2.50%) minus 2.50%, which represented a rate of zero at March 31, 2009 (2.75% at March 31, 2008).

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. CAPITAL ASSETS**

		2009		2008
	Cost	Accumulated depreciation	Net value	Net value
Leasehold improvements	\$2 162 708	\$1 032 151	\$1 130 557	\$1 220 880
Office furniture	210 871	153 946	56 925	88 485
Computer hardware and equipment	763 933	604 605	159 328	229 902
Computer hardware and equipment not being used	63 239		63 239	
Computer system development	649 213	649 213		39 801
Computer system development under way	380 536		380 536	
	<u>\$4 230 500</u>	<u>\$2 439 915</u>	<u>\$1 790 585</u>	<u>\$1 579 068</u>

During the fiscal year, capital assets were acquired for \$537 405 (2008: \$266 210).

7. CONSOLIDATED REVENUE FUND ADVANCE

The Commission has an authorized advance of an amount not to exceed \$3 500 000 from the Consolidated Revenue Fund, expiring March 31, 2011. Amounts used bear interest at the National Bank of Canada prime rate. No amount had been used at March 31, 2009.

8. LONG-TERM DEBT

	2009	2008
Bonds resulting from leasehold improvement funding included in leases, including interest calculated at rates varying from 4.28% to 4.70%, maturing up to 2021	\$1 368 480	\$1 468 888
Ancillary charges and interest included in the payments	<u>(272 521)</u> 1 095 959	<u>(315 618)</u> 1 153 270
Short-term portion of long-term debt	<u>(123 753)</u>	<u>(130 315)</u>
	<u>\$972 206</u>	<u>\$1 022 955</u>

Minimum future amounts payable for the next five fiscal years on obligations resulting from financing leasehold improvements are:

2010	\$171 983
2011	171 983
2012	150 032
2013	119 302
2014	119 302

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. FUTURE FRINGE BENEFITS

Pension plans

Commission staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan of Management Personnel (PPMP) or Retirement Plan for Senior Officials (RPSO), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The contribution rates for the different pension plans did not change during the fiscal year. The Commission's RREGOP contribution was 8.19% of the contributory payroll, that of the PPSO and PPMP from 10.54% and that of the CSSP 7.25%.

The Commission's contributions charged to the year-end statement totalled \$714 250 (2008: \$567 638). Its liability towards these Government plans is restricted to its employer contributions.

Provision for transition allowances

Transition allowances are payable to commissioners, whose mandate has not been not renewed or who do not seek mandate renewal. According to the regulation respecting the remuneration and other working conditions of the Commission's commissioners, this allowance generally corresponds to one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

	2009	2008
Opening balance	\$1 162 071	\$889 596
Annual expenses	366 653	353 730
Allowance for the year	<u>(81 255)</u>	<u>(81 255)</u>
Closing balance	<u>\$1 528 724</u>	<u>\$1 162 071</u>

Provision for sick leave and vacation time

	2009			2008
	Sick leave	Vacation time	Total	Total
Opening balance	\$2 025 366	\$1 095 755	\$3 121 121	\$3 391 288
Adjustment (Note 3)	(42 535)		(42 535)	(27 070)
Adjusted balance	1 982 831	1 095 755	3 078 586	3 364 218
Annual expenses	398 288	1 021 039	1 419 327	1 169 570
Benefits paid during the year	(254 192)	(954 398)	(1 208 590)	(1 455 202)
Closing balance	\$2 126 927	\$1 162 396	\$3 289 323	\$3 078 586

To actualize the provision for sick leave, the Commission used an actualization rate of 2.15%, 4.46% for the employee pension plan, and a wage growth rate of 3.25%.

COMMISSION DES RELATIONS DU TRAVAILNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. CASH FLOWS**

Cash and cash flows comprise the following:

	2009	2008
Cash on hand	\$600	\$1 100
Consolidated Revenue Fund advance	7 482 508	6 740 255
	<u>\$7 483 108</u>	<u>\$6 741 355</u>
Interest received during the year	\$59 777	\$101 892
Interest paid during the year	\$51 026	\$59 112

During the year, the Commission acquired capital assets for \$162 318 (2008: \$150 795), included under accounts payable and accrued liabilities at March 31, 2009.

11. COMMITMENTS

The Commission committed to paying certain amounts under service agreements. Commitments totalled \$126 776 (2008: \$936 600), breaking down as follows over the next five fiscal years:

	2010	2011	2012	2013	2014
SOQUIJ	\$12 863	\$13 325	\$10 275		
Other	68 812	10 270	4 871	\$3 180	\$3 180
Total	<u>\$81 675</u>	<u>\$23 595</u>	<u>\$15 146</u>	<u>\$3 180</u>	<u>\$3 180</u>

12. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission used services provided by different organizations within the Gouvernement du Québec's reporting entity. The value of these expenses is:

Centre des services partagés du Québec	\$1 276 204
Ministère de l'Emploi et de la Solidarité sociale	805 359
Société immobilière du Québec	1 604 255
Conseil du trésor	104 449

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Commission is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either control or significant influence by it. The Commission did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

COMMISSION DES RELATIONS DU TRAVAIL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. SUBSEQUENT EVENT**Transfer of responsibilities of the Commission de reconnaissance des associations d'artistes et des associations de producteurs**

The *Act to amend the Act respecting the professional status and conditions of engagement of performing, recording and film artists and other legislative provisions* (2009, c. 32) assented to on June 19, 2009, abolished the Commission de reconnaissance des associations d'artistes et des associations de producteurs and transferred its functions to the Commission des relations du travail.

14. COMPARATIVE FIGURES

Certain figures for 2008 were reclassified to comply with the presentation adopted for 2009.

MANAGEMENT'S REPORT

The financial statements of the Commission des relations du travail were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Commission recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Commission's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Andrée St-Georges
President

Québec, June 9, 2009

COMMISSION DES RELATIONS DU TRAVAIL**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Commission des relations du travail as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Commission management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management, and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 9, 2009 (June 19 for Note 13)

COMMISSION DES SERVICES JURIDIQUES
(R.S.Q., c. A-14)
GENERAL FUND

STATEMENT OF CONSOLIDATED RESULTS
for the year ended March 31, 2009

	Budget	Real	
		Operations	
	2009	2009	2008 (restated)
REVENUES			
Gouvernement du Québec grants			
Regular revenues	\$126 636 400	\$79 865 199	\$79 000 000
Regular – mega legal proceedings			
Court costs	2 195 000	985 844	1 436 443
Special federal files		193 532	
	<u>128 831 400</u>	<u>81 044 575</u>	<u>80 436 443</u>
EXPENSES (Appendices A and B)	<u>137 091 086</u>	<u>83 828 032</u>	<u>81 923 521</u>
	(8 259 686)	(2 783 457)	(1 487 078)
OTHER REVENUES (Appendix C)	<u>2 500 000</u>	<u>2 090 845</u>	<u>3 934 749</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$(5 759 686)</u></u>	<u><u>\$(692 612)</u></u>	<u><u>\$2 447 671</u></u>

This information is an integral part of the consolidated financial statements.

Real		Total	
Private practice (s. 52 and special federal files)			
2009	2008	2009	2008 (restated)
\$44 771 200	\$44 771 200	\$124 636 399	\$123 771 200
2 042 379	3 015 843	2 042 379	3 015 843
709 156	758 557	1 695 000	2 195 000
1 992 011		2 185 543	
49 514 746	48 545 600	130 559 321	128 982 043
51 180 089	45 603 168	135 008 121	127 526 689
(1 665 343)	2 942 432	(4 448 800)	1 455 354
705 568	605 917	2 796 413	4 540 666
<u>\$(959 775)</u>	<u>\$3 548 349</u>	<u>\$(1 652 387)</u>	<u>\$5 996 020</u>

COMMISSION DES SERVICES JURIDIQUES**GENERAL FUND****STATEMENT OF CHANGE IN CONSOLIDATED NET ASSETS**
for the year ended March 31, 2009

	2009				2008
	General reserve	Net assets invested in capital assets	Internally- generated net appropriated assets (Note 12)	Total	Total
PREVIOUSLY ESTABLISHED OPENING BALANCE	\$14 921 662	\$1 405 397	\$4 644 084	\$20 971 143	\$16 890 770
Adjustments applicable to past fiscal years aux (Note 14)	133 689		562 493	696 182	
ADJUSTED OPENING BALANCE	<u>15 055 351</u>	<u>1 405 397</u>	<u>5 206 577</u>	<u>21 667 325</u>	<u>16 890 770</u>
OPERATIONS					
Excess (deficiency) of revenues over expenses	297 986	(961 669)	(28 929)	(692 612)	2 447 671
Net investments in capital assets: From (for) the fiscal year's operations	(511 031)	511 031			
Instalments on long-term debt and capital lease contracts: From the fiscal year's operations	(361 786)	361 786			
Transfers to Professional Liability Fund and Fire and Theft Fund	(1 500 000)			(1 500 000)	(1 250 000)
Transfers of excess of revenues over expenses for the Professional Liability Fund and Fire and Theft Fund	75 919			75 919	30 535
	<u>(1 998 912)</u>	<u>(88 852)</u>	<u>(28 929)</u>	<u>(2 116 693)</u>	<u>1 228 206</u>
PRIVATE PRACTICE					
Excess (deficiency) of revenues over expenses	(4 276 552)		3 316 777	(959 775)	3 548 349
CLOSING BALANCE	<u>\$8 779 887</u>	<u>\$1 316 545</u>	<u>\$8 494 425</u>	<u>\$18 590 857</u>	<u>\$21 667 325</u>

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF RESULTS AND CHANGE IN THE CONSOLIDATED BALANCES
 OF THE PROFESSIONAL LIABILITY FUND AND FIRE AND THEFT FUND
 for the year ended March 31, 2009

	2009			2008
	Professional Liability Fund	Fire and Theft Fund	Total	Total
REVENUES				
Interest income	\$89 017	\$37 504	\$126 521	\$124 574
EXPENSES				
Professional and other fees	50 602		50 602	94 039
EXCESS OF REVENUES OVER EXPENSES	38 415	37 504	75 919	30 535
OPENING FUND BALANCE	2 500 000	1 000 000	3 500 000	2 250 000
Transfer of fiscal year's excess to the General Fund's general reserve	(38 415)	(37 504)	(75 919)	(30 535)
Transfer from the General Fund's general reserve	1 000 000	500 000	1 500 000	1 250 000
CLOSING BALANCE	<u>\$3 500 000</u>	<u>\$1 500 000</u>	<u>\$5 000 000</u>	<u>\$3 500 000</u>

COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED BALANCE SHEET
as at March 31, 2009

	General Fund	Professional Liability Fund	Fire and Theft Fund	2009	2008 (restated)
ASSETS					
Current assets					
Cash on hand (Note 4)	\$13 918 582	\$2	\$2	\$13 918 586	\$17 869 940
Funds held in trust (Note 4)	383 457			383 457	329 854
Accounts receivable (Note 5)	43 702 405	26 061	11 169	43 739 635	44 715 650
Prepaid expenses	673 120			673 120	546 590
Advances on deferred salaries	146 185			146 185	234 066
Short-term investments (Note 6)		3 500 000	1 500 000	5 000 000	3 500 000
	<u>58 823 749</u>	<u>3 526 063</u>	<u>1 511 171</u>	<u>63 860 983</u>	<u>67 196 100</u>
Capital assets (Note 7)	<u>2 789 269</u>			<u>2 789 269</u>	<u>2 807 190</u>
	<u><u>\$61 613 018</u></u>	<u><u>\$3 526 063</u></u>	<u><u>\$1 511 171</u></u>	<u><u>\$66 650 252</u></u>	<u><u>\$70 003 290</u></u>
LIABILITIES					
Current liabilities					
Accounts payable (Note 8)	\$41 116 078	\$26 063	\$11 171	\$41 153 312	\$42 866 394
Deferred salaries	19 077			19 077	172 630
Amounts collected in advance (Note 9)	414 282			414 282	395 148
Short-term portion of long-term debt (Note 10)	<u>388 348</u>			<u>388 348</u>	<u>302 043</u>
	<u>41 937 785</u>	<u>26 063</u>	<u>11 171</u>	<u>41 975 019</u>	<u>43 736 215</u>
Deferred special grants for capital assets					83 006
LONG-TERM DEBT (Note 10)	<u>1 084 376</u>			<u>1 084 376</u>	<u>1 016 744</u>
	<u>43 022 161</u>	<u>26 063</u>	<u>11 171</u>	<u>43 059 395</u>	<u>44 835 965</u>
EQUITY					
Net assets (Notes 11, 12, 13)	<u>18 590 857</u>	<u>3 500 000</u>	<u>1 500 000</u>	<u>23 590 857</u>	<u>25 167 325</u>
	<u><u>\$61 613 018</u></u>	<u><u>\$3 526 063</u></u>	<u><u>\$1 511 171</u></u>	<u><u>\$66 650 252</u></u>	<u><u>\$70 003 290</u></u>

On behalf of the Board of Directors
 Denis Roy, Director
 Lucie Dufresne, Director

COMMISSION DES SERVICES JURIDIQUES

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008 (restated)
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses		
Operations	\$(692 612)	\$2 447 671
Private practice	(959 775)	3 548 349
Professional Liability Fund and Fire and Theft Fund	75 919	30 535
	<u>(1 576 468)</u>	<u>6 026 555</u>
Amortization of capital assets	1 044 775	1 134 752
Amortization of deferred special grants for capital assets	(83 006)	(287 742)
Gain on sale of capital assets	(100)	(9 356)
Change in non-cash working capital items (Note 15)		
Operations	885 504	5 531 458
Private practice	<u>(1 795 639)</u>	<u>(5 893 756)</u>
Cash flows from operating activities	<u>(1 524 934)</u>	<u>6 501 911</u>
FINANCING ACTIVITIES		
Long-term debt	515 723	400 800
Instalments on long-term debt	<u>(361 786)</u>	<u>(337 899)</u>
Cash flows from financing activities	<u>153 937</u>	<u>62 901</u>
INVESTMENT ACTIVITIES		
Trust Fund	(53 603)	166 534
Acquisition of short-term investments	(1 500 000)	(1 250 000)
Acquisition of capital assets	(1 026 854)	(933 399)
Cession of capital assets	<u>100</u>	<u>9 805</u>
Cash flows from investment activities	<u>(2 580 357)</u>	<u>(2 007 060)</u>
NET VARIATION IN CASH ON HAND	(3 951 354)	4 557 752
OPENING CASH ON HAND	<u>17 869 940</u>	<u>13 312 188</u>
CLOSING CASH ON HAND	<u><u>\$13 918 586</u></u>	<u><u>\$17 869 940</u></u>

Cash excludes amounts held in trust.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at March 31, 2009

1. IDENTIFICATION AND ACTIVITY SECTOR

The Commission des services juridiques (Commission) was established under the *Legal Aid Act* and offers services of advocates and notaries to the underprivileged.

2. MAIN ACCOUNTING POLICIES

a) Financial statement presentation

To prepare its financial statements, the Commission uses the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other generally accepted accounting principles (GAAP) used are consistent with it.

b) Consolidation principles

The consolidated financial statements include the Commission's accounts and those of the following centres controlled by it:

- Centre communautaire juridique de Montréal (including the Services juridiques communautaires de Pointe St-Charles and Petite Bourgogne inc.);
- Centre communautaire juridique des Laurentides-Lanaudière;
- Centre communautaire juridique de la Rive-Sud;
- Centre communautaire juridique de Québec;
- Centre communautaire juridique de l'Outaouais (including Clinique juridique populaire de Hull inc.);
- Centre communautaire juridique de l'Estrie;
- Centre communautaire juridique du Saguenay - Lac St-Jean;
- Centre communautaire juridique de la Mauricie - Bois-Francs;
- Centre communautaire juridique du Bas St-Laurent - Gaspésie;
- Centre communautaire juridique de la Côte-Nord;
- Centre communautaire juridique de l'Abitibi-Témiscamingue.

c) Professional Liability Fund

This Fund is used to pay settlements resulting from liability lawsuits involving the network's lawyers and the Commission's commissioners.

d) Fire and Theft Fund

This Fund is used to pay costs related to fire or theft on the network's premises.

e) Net assets not allocated to the General reserve

The General reserve created by the Commission is used to carry out its obligations and commitments.

f) Accounting estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for estimates have been used are the provisions for private practices' professional fees and contingencies. Real results may differ from these estimates.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)

g) Reporting regular and special grants

Proceeds from regular and special grants are posted to revenues in the fiscal year in which the related expenses are incurred insofar as the appropriated are authorized, the organization meets the eligibility criteria and it is possible to arrive at a reasonable estimate of the amounts in question. The amounts posted are based on the most accurate information available and adjusted to reflect new information obtained before the financial statements are completed. These provisions apply to grants received for operating expenses and capital asset expenses.

h) Private practice-related expenses (s. 52)

Professional fees, legal fees and interest paid to private practice (s. 52) are recorded on an accrual basis and revenue is posted according to amounts authorized by the Gouvernement du Québec.

i) Contributory scheme

Revenues related to administrative expenses and other contributions by beneficiaries are reported on an accrual basis.

j) Bills for expenses and reimbursement of legal aid costs

Bills for expenses and reimbursement of legal aid costs are recorded on a cash basis, given the uncertainty surrounding their recovery.

k) Short-term investments

Short-term investments are recorded at cost or market value, whichever is lower.

l) Capital assets

Capital assets are recorded at cost and amortized using the straight-line method and the following periods:

Computer and office automation equipment	3 years
Office furniture and equipment	5 years
Leasehold improvements	Remainder of lease, maximum 10 years

m) Fund transfers

In keeping with the Commission's resolutions, the Fire and Theft Fund reserve must be \$1 500 000 (2008: \$1 000 000) and the Professional Liability Fund reserve \$3 500 000 (2008: \$2 500 000). Any excess or deficiency of revenue over expenses must be transferred to (from) the General Fund.

n) Future fringe benefits

Commission and regional centre staff participate in one of the following defined-benefit plans administered by the Commission administrative des régimes de retraite et d'assurance (CARRA):

- Government and Public Employees Retirement Plan (RREGOP);
- Civil Service Superannuation Plan (CSSP);
- Pension Plan of Management Personnel (PPMP).

The Gouvernement du Québec is responsible for paying part or all of the benefits of these inter-enterprise retirement plans.

The Commission's contributions charged to the year-end statement totalled \$3 094 306 (2008: \$2 892 802).

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)

o) Fund accounting

The financial statement information model included in the public-sector recommendations is prepared for Government and combines fund balances in order to summarize the information presented to users to enable them to quickly understand the overall measures constituting the financial situation and the result of activities.

The Commission chose to maintain the current financial statement presentation rather than using the Government financial statement presentation model. Presenting the results and change in the fund balances of the General Fund separately from the Professional Liability Fund and Fire and Theft Fund differs from the information model included in the public-sector recommendations. For the fiscal year, the combined result of Commission activities is a deficiency of revenues over expenses of \$1 576 468 (2008: excess revenues over expenses of \$6 026 555).

3. CHANGE IN ACCOUNTING POLICIES

For more consistent presentation of financial information, the Gouvernement du Québec has asked all of the organizations included under its accounting framework and able to use the CICA Public Sector Accounting Handbook to use it for fiscal years beginning on or after January 1, 2008. Use of any other source of generally accepted accounting principles must be consistent with it. Consequently, the Commission adopted these recommendations as the accounting framework for its fiscal year beginning on April 1, 2008.

The main changes resulting from the initial application of public-sector recommendations concern financial instrument reporting.

During the fiscal year, the Commission adopted the Government's accounting policies governing financial instrument reporting until more extensive recommendations are adopted in the CICA Public Sector Accounting Handbook. Last fiscal year, the Commission had adopted the CICA Handbook's new recommendations for reporting financial instruments. The retroactive application of the changes in accounting policies for financial instruments resulted in the reclassification of \$12 418 in accrued interest on short-term investments in receivables rather than an increase in the book value of these investments and the reduction in requirements regarding information to disclose.

In keeping with public-sector recommendations, this fiscal year's budget data were integrated into the statement of results and the tables presented in the additional information.

Apart from the reclassification of accrued interest in short-term investments discussed above, no restatement of last fiscal year's financial statements was necessary subsequent to the initial application of public-sector accounting standards.

4. RESTRICTIONS ON CASH AND FUNDS HELD IN TRUST

Certain community legal centre employees invoked a collective agreement clause enabling them to have amounts deducted at-source for future paid sabbaticals. The amounts are deposited in trust for this purpose.

Cash also includes \$208 757 (2008: \$162 773) deposited for this purpose.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**5. ACCOUNTS RECEIVABLE**

	2009	2008 (restated)
Accrued interest	\$56 852	\$33 675
Advance to the Professional Liability Fund	26 063	8 881
Advance to the Fire and Theft Fund	11 171	3 558
Gouvernement du Québec grants		
Salaries and accrued vacation time	5 806 591	5 806 591
Private practice	35 131 000	35 131 000
Private practice – mega legal proceedings	1 677 330	3 015 843
Special federal files	212 392	
Other	818 236	716 102
	<u>\$43 739 635</u>	<u>\$44 715 650</u>

6. SHORT-TERM INVESTMENTS

	2009	2008
Professional Liability Fund		
Deposit certificates at 2.14% (2008: 3.70%), maturing in May 2009	<u>\$3 500 000</u>	<u>\$2 500 000</u>
Fire and Theft Fund		
Deposit certificates at 2.14% (2008: 3.70%), maturing in May 2009	<u>\$1 500 000</u>	<u>\$1 000 000</u>

7. CAPITAL ASSETS

	2009	2009	2008	2008
	Cost	Accumulated depreciation	Net value	Net value
CAPITAL ASSETS				
Computer and office automation equipment	\$4 176 918	\$3 465 672	\$711 246	\$769 527
Office furniture and equipment	1 876 655	1 364 947	511 708	584 403
Leasehold improvements	2 313 512	931 771	1 381 741	1 189 533
	<u>8 367 085</u>	<u>5 762 390</u>	<u>2 604 695</u>	<u>2 543 463</u>
Capital assets acquired under capital lease contracts				
Office furniture and equipment	514 454	334 476	179 978	248 113
Computer and office automation equipment	203 598	199 002	4 596	15 614
	<u>718 052</u>	<u>533 478</u>	<u>184 574</u>	<u>263 727</u>
	<u>\$9 085 137</u>	<u>\$6 295 868</u>	<u>\$2 789 269</u>	<u>\$2 807 190</u>

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

8. ACCOUNTS PAYABLE

	2009	2008
Accounts payable and accrued liabilities	\$1 172 958	\$1 255 378
Accounts payable and accrued liabilities		
– attorneys in private practice		
Regular operations	25 265 730	28 582 507
Mega legal proceedings and special federal files	1 054 737	562 493
Advance from General Fund, interest-free	37 234	12 439
Salaries and at-source deductions	4 879 119	3 641 767
Accrued vacation time	7 177 436	7 148 507
Court costs		
Operations	856 942	904 746
Private practice	709 156	758 557
	<u>\$41 153 312</u>	<u>\$42 866 394</u>

9. AMOUNTS COLLECTED IN ADVANCE

	2009	2008
Lease inducement	\$127 079	\$133 788
Contributory scheme– permanent staff	127 464	53 795
Contributory scheme– private practice	159 739	207 565
	<u>\$414 282</u>	<u>\$395 148</u>

10. LONG-TERM DEBT

	2009	2008
Borrowing from Société immobilière du Québec for acquisition of leasehold improvements, at rates varying from 4.2% to 5.0%, maturing from 2010 to 2017	\$1 272 807	\$1 042 530
Commitments under capital leases maturing from 2010 to 2014	199 917	276 257
	1 472 724	1 318 787
Current portion	388 348	302 043
	<u>\$1 084 376</u>	<u>\$1 016 744</u>

Capital repayments for the long-term debt over the next five fiscal years break down as:

2010	\$322 549
2011	269 763
2012	232 240
2013	213 838
2014	97 617

COMMISSION DES SERVICES JURIDIQUESNOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**10. LONG-TERM DEBT** (cont'd)

Amounts payable and balance of obligations are:

2010	\$83 247
2011	70 533
2012	48 635
2013	26 381
2014	1 768
	<u>230 564</u>
Amount representing interest at rates varying from 5.65% to 14.77%	<u>30 647</u>
Balance of obligations	<u>\$199 917</u>

11. NET ASSETS

The Commission's net assets are:

	<u>2009</u>	<u>2008</u>
General Fund		
Net assets invested in capital assets	\$1 316 545	\$1 405 397
Internally-generated net appropriated assets	8 494 425	5 206 577
Unappropriated net assets – General reserve	<u>8 779 887</u>	<u>15 055 351</u>
	18 590 857	21 667 325
Professional Liability Fund – closing balance	3 500 000	2 500 000
Fire and Theft Fund – closing balance	<u>1 500 000</u>	<u>1 000 000</u>
	<u>\$23 590 857</u>	<u>\$25 167 325</u>

12. INTERNALLY-GENERATED APPROPRIATED NET ASSETS

The General Fund's net assets include a \$8 494 425 (2008: \$5 206 577) surplus of grants receivable from the Gouvernement du Québec to enable the Commission to adopt accrual accounting for expenses and disbursements of private practice and employee vacation time over the corresponding accrued expenses. This surplus may be used only to fund changes in the estimates of these accrued expenses. Consequently, these net assets cannot be used to fund the Commission's operations requiring disbursements.

13. UNAPPROPRIATED NET ASSETS – GENERAL RESERVE

Surplus revenues over expenses for the fiscal year include \$128 902 (2008: \$531 697) in excess Gouvernement du Québec grants for court fees over invoicing of these fees.

COMMISSION DES SERVICES JURIDIQUESNOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**13. UNAPPROPRIATED NET ASSETS – GENERAL RESERVE (cont'd)**

The amounts posted to the fiscal year's operating expenses and investments include the following amounts from the General Reserve used under a resolution adopted by management:

	2009	2008
Pay equity work		
Professional services	\$20 452	\$42 979
Travelling expenses	73 139	38 523
Other expenses	4 444	429
	<u>98 035</u>	<u>81 931</u>
Amounts posted to annual operating costs		
	98 035	81 931
Amounts invested in capital assets		1 830
	<u>\$98 035</u>	<u>\$83 761</u>

14. ADJUSTMENTS APPLICABLE TO PAST FISCAL YEARS

- a) The Commission reclassified the General Reserve's opening balances of \$562 493 to its internally-generated appropriated net assets so as to better reflect the net assets linked to grants receivable from the Gouvernement du Québec on accounts payable and the corresponding accrued private-practice expenses.
- b) In last fiscal year's financial statements, the Commission omitted reporting revenues of \$696 182 for financial surpluses repayable under a group insurance contract. Consequently, the previous year's financial statements were reworked. The other revenues in the General Fund's statement of results were increased by \$696 182. In the General Fund's statement of change in consolidated net assets, the excess revenues over expenses in the operations section was increased by \$696 182 as was the closing net asset balance. In the balance sheet, receivables and the closing net asset balance were increased by the same amount. In the statement of cash flows, the excess revenues over operating expenses and the change in working capital fund elements were adjusted.

15. CASH FLOW INFORMATION

Changes in working capital items are:

	2009	2008
Operations		
Accounts receivable	\$(150 106)	\$4 741 727
Prepaid expenses	(126 530)	(49 809)
Advances on deferred salaries	87 881	(31 702)
Accounts payable	1 160 852	959 022
Deferred salaries	(153 553)	(39 592)
Amounts collected in advance	66 960	(48 188)
	<u>\$885 504</u>	<u>\$5 531 458</u>
Private practice		
Accounts receivable	\$1 126 121	\$(3 015 843)
Accounts payable	(2 873 934)	(2 898 729)
Amounts collected in advance	(47 826)	20 816
	<u>\$(1 795 639)</u>	<u>\$(5 893 756)</u>

Cash flows for operations include interest payments of \$80 185 (2008: \$64 789).

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd) as at March 31, 2009

16. COMMITMENTS

Lease

The Commission and the community legal centres are committed under leases for office space and equipment to make lease payments of \$18 555 342. The minimum lease payments for the next five fiscal years are:

	<u>Premises</u>	<u>Equipment</u>
2010	\$5 638 403	\$117 032
2011	4 002 166	79 353
2012	3 007 447	60 554
2013	2 742 718	45 382
2014	2 113 906	19 614

17. CONTINGENCIES

- a) Proceedings have been instituted against certain community legal centres and the Commission. Should the Commission be called on to settle claims for amounts that are presently impossible to assess, the resulting loss would be posted to the fiscal year's expenses. This amount pertains to professional lawsuits for which a professional liability fund has been provided for in the financial statements.

Currently, the Professional Liability Fund shows a \$3 500 000 reserve. Given the risk of legal proceedings, the fund might post a deficiency. However, management deems it probable that these expenses will be financed from additional Government grants.

- b) At fiscal year-end, talks were under way regarding the pay equity file and the collective agreement of advocates, which expired on March 31, 2007. Where pay equity is concerned, it is currently impossible to determine the amount to be paid retroactively. Expenses related to these items will be posted when known.

For the advocates' expired collective agreement, a provision of 2% of the payroll, based on settlement of the last collective agreements, is reported on the financial statements. Any settlement that is higher or lower than this amount will be posted when known.

Management deems that these expenses will probably be financed from additional Government grants.

- c) During the fiscal year and thereafter, grievances targeting support staff position reclassification were submitted. It is currently impossible to foresee the outcome of these grievances and the amount that may have to be paid. Expenses related to these items will be posted when known.

Management deems that these expenses will be financed from additional Government grants.

- d) The Barreau du Québec submitted requests for a arbitration on disagreements of general interest regarding the rates applied to lawyers in private practice since January 1, 2008.

It is currently impossible to determine the outcome of these disputes or the amounts the Commission may have to pay in the event of an unfavourable ruling.

Management deems that these expenses will probably be financed from additional Government grants.

COMMISSION DES SERVICES JURIDIQUES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

18. RELATED PARTY TRANSACTIONS

During the fiscal year, the Commission carried out the following transactions with Gouvernement du Québec-controlled companies. It posted rental payments of \$5 408 715 (2008: \$5 033 751) payable to the Société immobilière du Québec, court costs of \$1 410 043 (2008: \$1 485 948) payable to the Minister of Justice du Québec, and various operating expenses totalling \$447 371 (2008: \$398 138) payable to other Gouvernement du Québec corporations and agencies. A balance of \$1 566 098 (2008: \$1 663 303) for court fees was payable at March 31, 2009, as disclosed in Note 8.

Further, during the course of the fiscal year, the Commission collected Gouvernement du Québec grants totalling \$81 560 199 (2008: \$81 195 000) for registry operations and fees, \$44 771 200 (2008: \$44 771 200) for private practice and \$2 042 379 (2008: \$3 015 843) for the recovery of expenses linked to mega legal proceedings.

The balances receivable for these operations are disclosed in Note 5.

These operations are measured at exchange value, as agreed to by the parties.

19. COMPARATIVE FIGURES

For comparison purposes, certain figures in the consolidated financial statements for the previous fiscal year were reclassified.

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION
for the year ended March 31, 2009

	Budget ¹ 2009	Real 2009	Real 2008
APPENDIX A – OPERATING EXPENSES			
Administration			
Rent, taxes and permits	\$6 514 778	\$6 400 022	\$6 092 636
Travelling expenses	1 307 875	1 141 291	1 057 698
Amortization of capital assets		1 044 775	1 134 752
Professional services	746 369	567 400	562 267
Telecommunication	792 297	753 810	763 180
Office supplies	607 400	610 025	593 991
Professional assessments	538 044	538 848	514 752
Library	459 800	466 647	455 102
Maintenance and repairs	634 995	479 233	425 221
Professional training	484 800	393 573	415 774
Postage	355 550	337 913	334 540
Other administrative expenses	337 000	375 746	328 827
Office furniture and equipment	400 435	388 734	407 179
Directors' meeting	120 620	110 564	105 404
Interest on the long-term debt	65 084	80 185	64 789
Loss on sale of capital assets			449
Information	530 000	46 612	22 296
Electricity	3 300	3 434	2 801
	<u>13 898 347</u>	<u>13 738 812</u>	<u>13 281 658</u>
Salaries and fringe benefits			
Attorneys	44 809 833	43 259 579	42 699 404
Other	24 122 156	23 196 461	22 344 732
	<u>68 931 989</u>	<u>66 456 040</u>	<u>65 044 136</u>
Legal fees			
Free services			
Civil	3 647 350	3 143 006	3 071 113
Criminal	420 600	378 225	403 500
	<u>4 067 950</u>	<u>3 521 231</u>	<u>3 474 613</u>
Contributory scheme			
Civil	4 800	93 659	103 814
Criminal		18 290	19 300
	<u>4 800</u>	<u>111 949</u>	<u>123 114</u>
	<u>4 072 750</u>	<u>3 633 180</u>	<u>3 597 727</u>
	<u>\$86 903 086</u>	<u>\$83 828 032</u>	<u>\$81 923 521</u>

1 These amounts exclude capital budgets totalling \$967 563 for capital asset acquisitions and long-term debt repayment. The initial budgets do not reflect capital asset amortization costs.

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2009

	Budget 2009	Real 2009	Real 2008
APPENDIX B –PRIVATE PRACTICE EXPENSES (s. 52)			
Free services			
Professional fees			
Civil		\$20 964 295	\$16 723 871
Criminal		22 310 319	21 091 167
Notarial		77 761	76 377
	<u>\$49 200 000</u>	<u>43 352 375</u>	<u>37 891 415</u>
Legal fees ¹			
Civil		4 078 513	4 047 158
Criminal		1 698 669	1 669 621
Notarial		40 345	6 641
		<u>5 817 527</u>	<u>5 723 420</u>
Other expenses		36 267	39 862
Interest		3 216	28 640
	<u>998 000</u>	<u>39 483</u>	<u>68 502</u>
	<u>50 188 000</u>	<u>49 209 385</u>	<u>43 683 337</u>
Paid service			
Professional fees			
Civil		1 315 804	1 108 419
Criminal		353 234	469 115
Notarial		5 159	3 396
		<u>1 674 197</u>	<u>1 580 930</u>
Legal fees ²			
Civil		229 273	258 140
Criminal		66 437	80 656
Notarial		797	105
		<u>296 507</u>	<u>338 901</u>
		<u>1 970 704</u>	<u>1 919 831</u>
	<u>\$50 188 000</u>	<u>\$51 180 089</u>	<u>\$45 603 168</u>

1 Includes legal fees of \$4 212 112 (2008: \$4 247 170) and other fees of \$1 605 415 (2008: \$1 476 250).

2 Includes legal fees of \$237 164 (2008: \$274 858) and other fees of \$59 343 (2008: \$64 042).

COMMISSION DES SERVICES JURIDIQUES

STATEMENT OF CONSOLIDATED ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2009

	Budget 2009	Real 2009	Real 2008 (restated)
APPENDIX C – OTHER REVENUES			
Operations			
Contributory scheme ^(a)		\$838 659	\$910 099
Bill for expenses		27 705	29 317
Reimbursement of legal aid costs		565 903	527 382
Interest		476 987	944 509
Other		98 485	16 386
Grant balance – special federal projects			513 327
Gain on sale of capital assets		100	9 805
Amortization of special deferred grants for capital assets		83 006	287 742
Rebates on group insurance contracts			696 182
	<u>\$2 000 000</u>	<u>2 090 845</u>	<u>3 934 749</u>
Private practice (s. 52)			
Contributions from beneficiaries	<u>500 000</u>	<u>705 568</u>	<u>605 917</u>
	<u>\$2 500 000</u>	<u>\$2 796 413</u>	<u>\$4 540 666</u>

(a) Effective January 1, 1997, certain beneficiaries are eligible for services under the *Legal Aid Act* for a fee.

Contributory scheme

	2009	2008
Beneficiaries' contributions	\$568 762	\$649 126
Administrative expenses	267 378	255 035
Interest	<u>2 519</u>	<u>5 938</u>
	<u>\$838 659</u>	<u>\$910 099</u>

COMMISSION DES SERVICES JURIDIQUES**AUDITORS' REPORT**

To the administrators of the
Commission des services juridiques

We have audited the consolidated balance sheet of the Commission des services juridiques as at March 31, 2009 and the consolidated statements of results, change in net assets and cash flows of the General Fund, and changes in the consolidated balances of the Professional Liability Fund and Fire and Theft Fund for the year then ended. These financial statements are the responsibility of Commission 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, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the Commission's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted auditing standards. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Harel Drouin – PKF, S.E.N.C.R.L.
Chartered Accountants

Montréal, May 27, 2009

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE
(R.S.Q., c. A-29.011)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended December 31, 2008
(in thousands of dollars)

	2008	2007 (Reworked – Note 3)
REVENUES		
Parental Insurance Fund contribution (Note 3)	39 855	35 643
Interest income	25	59
	<u>39 880</u>	<u>35 702</u>
EXPENSES		
Administrative expenses (Note 4)	1 921	1 870
Costs related to QPIP* administration by the Ministère l'Emploi et de la Solidarité sociale (Note 5)	20 892	20 133
Costs related to computer support activities by the Ministère de l'Emploi et de la Solidarité sociale (Note 5)	5 762	3 490
Costs related to collection of contributions by Revenu Québec (Note 6)	6 571	6 210
Bank charges related to QPIP benefit payment by the Ministère des Finances	74	76
Amortization of intangible assets	4 276	3 463
Interest on long-term debt	384	460
	<u>39 880</u>	<u>35 702</u>
CLOSING EXCESS REVENUES OVER EXPENSES AND CUMULATED SURPLUS	<u> </u>	<u> </u>

The notes are an integral part of these financial statements.

* Québec Parental Insurance Plan (QPIP)

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

BALANCE SHEET
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u> (Reworked – Note 3)
ASSETS		
Current assets		
Cash on hand	2 775	3 139
Accounts receivable (Note 7)	<u>542</u>	<u>4 444</u>
	3 317	7 583
Capital assets (Note 8)	145	91
Tangible assets (Note 9)	<u>16 366</u>	<u>16 229</u>
	<u>19 828</u>	<u>23 903</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	4 783	4 147
Parental Insurance Fund advance, interest-free, no terms of repayment (Note 3)	3 705	7 462
Provision for vacation time (Note 11)	103	84
Portion of the long-term debt maturing in the short term (Note 12)	<u>4 559</u>	<u>3 991</u>
	13 150	15 684
Provision for sick leave (Note 11)	258	291
Long-term debt (Note 12)	<u>6 420</u>	<u>7 928</u>
	<u>19 828</u>	<u>23 903</u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Geneviève Bouchard
President-CEO

Éric Lavoie, CA
Chairman, Planning and Auditing Committee

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

STATEMENT OF CASH FLOWS
for the year ended December 31, 2008
(in thousands of dollars)

	2008	2007 (Reworked – Note 3)
OPERATING ACTIVITIES		
Items not affecting cash flows:		
Amortization		
Capital assets	44	36
Intangible assets	4 276	3 463
Change in non-cash items related to operations (Note 13)	3 816	(2 820)
Cash flows from operating activities	8 136	679
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(98)	(6)
Acquisition of intangible assets	(18)	(13)
Cash flows used for investment activities	(116)	(19)
FINANCING ACTIVITIES		
Net change in advances (Note 3)	(3 757)	4 301
Repayment of the long-term debt	(4 627)	(4 069)
Cash flows from financing activities	(8 384)	232
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(364)	892
OPENING CASH ON HAND	3 139	2 247
CLOSING CASH ON HAND	2 775	3 139

The notes are an integral part of these financial statements.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS

as at December 31, 2008

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FUNDING

Constitution

The Conseil de gestion de l'assurance parentale (Conseil) is a legal person under the Civil Code, created on January 10, 2005 under the *Act respecting parental insurance* (R.S.Q., A-29.011) and mandated, under it, to manage the Québec Parental Insurance Plan (QPIP), in effect since January 1, 2006, and, as a trustee, to administer the Parental Insurance Fund (Fund).

Purpose

QPIP pays benefits to all eligible workers who take maternity leave, paternity leave, parental leave or adoption leave.

The Conseil is the trustee of the Parental Insurance Fund, a social utility trust set up on June 17, 2005, whose asset base is essentially used, under the *Act respecting parental insurance*, to pay benefits to anyone eligible under the Act and to pay costs incurred by the Conseil in exercising its trustee duties.

Under the *Act respecting parental insurance*, the Conseil transfers all of the amounts it collects for QPIP to the Fund as they are received.

The Minister of Employment and Social Solidarity (MESS) administers the QPIP under section 80 of the *Act respecting parental insurance*.

Funding

The Conseil's main funding source is Fund contributions collected under the *Act respecting parental insurance* for QPIP funding. Amounts available to the Conseil must be used solely to apply its incorporating legislation and pay its obligations.

The Minister of Revenue collects QPIP contributions under Chapter IV of the *Act respecting parental insurance* and section 2 of the *Act respecting the Ministère du Revenu* (R.S.Q., c. M-31).

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Parental Insurance Fund contributions

Parental Insurance Fund contributions are reported when acquired by Conseil and when their reception is reasonably certain.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method over their expected service life and the following annual rates:

Office furniture and equipment	20.00%
Leasehold improvements	20.00%
Computer equipment	33.33%

The Conseil regularly examines its capital assets' book value, comparing it to the unrealized future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Intangible assets

Intangible assets, comprising computer systems development and development of informational assets, are recorded at cost and amortized over their expected service life using the straight-line method and an annual rate of 20%.

They undergo a depreciation test annually or more frequently if events or changes in the situation indicate that their value may have dropped.

Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Pension plan

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Conseil lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Financial instruments

Initial measurement

Financial instruments are recognized at their fair value on the date of the transaction.

Subsequent measurement

Other short-term financial assets and liabilities

Cash, accounts receivable, accounts payable and accrued liabilities, and the provision for vacation time are held or have been irrevocably designated as held, for transaction purposes, and, as such, are measured at their fair value. The book value of these short-term financial instruments represents a reasonable estimate of their fair value, given that they mature in the near future.

Advance

The Fund advance has also been designated for transaction purposes. Since no encashment terms are foreseen, it is deemed to be encashable on demand. Consequently, its fair value corresponds to its book value.

Comprehensive income

During the fiscal year ended December 31, 2008, the Conseil carried out no operations affecting the comprehensive income and no opening or closing balances are presented for the cumulative comprehensive income.

3. CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting standards

On January 1, 2008, the Conseil adopted the CICA Handbook's Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation", change and increase requirements regarding information to be disclosed. Sections 3862 and 3863 give more importance to disclosures, enabling users to assess the nature and scope of the risks resulting from the financial instruments to which the Conseil is exposed and how it manages these risks.

Since sections 3862 and 3863 are limited to disclosure of additional information, they do not affect the Conseil's results.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

Adoption of new accounting standards (cont'd)

During the year, the Conseil applied CICA'S new recommendations for Section 3064, "Goodwill and Intangible Assets" in advance. This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally.

In past fiscal years, the Conseil had posted its implementation costs to assets and amortized them using the straight-line method over a five-year period. In applying Section 3064, these costs no longer qualify as intangible assets, since they do not meet this new standard's identifiability criterion. Since these costs cannot be separated and do not result from contractual rights or other legal rights, they can no longer be presented as assets and must be posted to expenses for the fiscal year in which they were incurred.

This change does not affect the Conseil's cumulated surplus at December 31, 2007 because, under the *Act respecting parental insurance*, the Conseil's obligations to apply this legislation are assigned to the Fund. This change in accounting policy also affects the items "Parental Insurance Fund contribution" and "Parental Insurance Fund advance" of past fiscal years.

The comparative financial statements for fiscal 2007 were restated to reflect the retroactive application of this accounting change. The effects of the change on fiscal 2007 are shown in the table below.

Effects, increase (decrease), on fiscal 2007 of the change in accounting policy

	2007
OPERATIONS	
Parental Insurance Fund contribution	(1 651)
Amortization of implementation costs	(1 651)
BALANCE SHEET	
Implementation costs	(5 288)
Parental Insurance Fund advance	(5 288)
CASH FLOWS	
Amortization of implementation costs	(1 651)
Net change in advances	1 651

4. ADMINISTRATIVE EXPENSES

	2008	2007
Salaries and fringe benefits	1 147	1 203
Support and administrative services of the Ministère de l'Emploi et de la Solidarité sociale	300	341
Professional services	155	86
Training	40	27
Travelling expenses	15	11
Rent	118	74
Materials, supplies and courier services	15	25
Telephone and Internet	20	15
Amortization of capital assets	44	36
Other	67	52
	<u>1 921</u>	<u>1 870</u>

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

5. COSTS RELATED TO MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE ACTIVITIES

Under the *Act respecting parental insurance*, the Minister of Employment and Social Solidarity is responsible for administering the QPIP. This mandate requires him to take charge of all activities associated with QPIP administration related to eligibility for and payment of QPIP benefits.

Plan administration costs posted to the fiscal year's results totalled \$20 891 695 (2007: \$20 133 202) and computer support costs totalled \$5 762 404 (2007: \$3 490 332).

6. COSTS RELATED TO CONTRIBUTION COLLECTION BY REVENU QUÉBEC

Under the *Act respecting parental insurance*, the Minister of Revenue is responsible for collecting Plan contributions. In fulfilling this mandate, on the contributions remitted to the Conseil, it withholds collection costs and other costs related to the debts it must bear. These costs are determined by order-in-council based on the expenses actually incurred by Revenu Québec.

Contribution collection costs posted to the fiscal year's results totalled \$6 571 162 (2007: \$6 210 052) and include only administrative expenses.

7. ACCOUNTS RECEIVABLE

	2008	2007
Other	24	
Accrued interest	2	6
Ministère de l'Emploi et de la Solidarité sociale	516	4 438
	<u>542</u>	<u>4 444</u>

8. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Office furniture and equipment	78	33	45
Leasehold improvement	143	54	89
Computer equipment	42	31	11
	<u>263</u>	<u>118</u>	<u>145</u>
			<u>91</u>

9. INTANGIBLE ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Computer-related development under a capital lease contract (Note 15)	26 260	9 946	16 314
Informational assets	67	15	52
	<u>26 327</u>	<u>9 961</u>	<u>16 366</u>
			<u>16 229</u>

Computer development carried out by the Ministère de l'Emploi et de la Solidarité sociale at a cost of \$3 831 382 (2007: \$3 123 196) was in progress as at December 31, 2008 and was not amortized.

Interest capitalized during the fiscal year totalled \$66 525 (2007: \$18 555).

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Suppliers and accrued expenses	89	82
Ministère de l'Emploi et de la Solidarité sociale information technologies fund	4 089	3 465
Ministère des Finances	56	57
Revenu Québec	549	543
	<u>4 783</u>	<u>4 147</u>

11. FUTURE FRINGE BENEFITS**Pension plans**

Conseil staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2008, the Conseil's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP from 7.78% to 10.54%.

The Conseil's contributions charged to the year-end statement totalled \$53 122 (2007: \$54 517). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2008		2007	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	84	291	73	185
Expenses	115	(13)	70	148
Utilization	(96)	(20)	(59)	(42)
Closing balance	<u>103</u>	<u>258</u>	<u>84</u>	<u>291</u>

12. LONG-TERM DEBT

	2008	2007
Ministère de l'Emploi et de la Solidarité sociale information technologies fund (Note 15)		
Capital lease contract for computer development, Variable interest based on average one-month Canadian bank acceptance plus 0.3%, which represented 1.92% at December 31, 2008, repayable in one payment of \$4 559 118 in April 2009, plus interest, followed by four other annual payments, maturing in 2013	10 979	11 919
Minus: Portion of long-term debt due in the short term	<u>4 559</u>	<u>3 991</u>
	<u>6 420</u>	<u>7 928</u>

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

Minimum future capital payments are:

2009	4 559
2010	3 743
2011	1 848
2012	769
2013	60
	<u>10 979</u>

13. CASH FLOWS

	<u>2008</u>	<u>2007</u>
Change in non-cash items related to operations		
Accounts receivable	3 902	(2 674)
Accounts payable and accrued liabilities	(72)	(263)
Provision for vacation time	19	11
Provision for sick leave	<u>(33)</u>	<u>106</u>
	<u>3 816</u>	<u>(2 820)</u>
Interest paid	<u>454</u>	<u>385</u>

Intangible assets acquired during the fiscal year totalled \$4 395 113 (2007: \$5 859 175) and \$563 731 (2007: \$2 722 492) was acquired under a capital lease contract. At December 31, 2008, the item "Accounts payable and accrued liabilities" included \$3 831 382 (2007: \$3 123 196) for intangible assets.

14. FINANCIAL INSTRUMENTS**Credit risk**

The financial assets' book value represents the Conseil's maximum exposure to credit risk.

Management deems that the Conseil is not exposed to significant credit risk, given that it transacts almost solely with the Fund, which is assigned, under the *Act respecting parental insurance*, to covering the Conseil's obligations in exercising its duties as Fund trustee.

Fair value

Given that they mature in the very near future or short term, the book value of debts, accounts payable and accrued liabilities and the portion of the long-term debt maturing in the short term indicated in the balance sheet resemble their fair value.

The fair value of the Fund's short-term advance to the Conseil resembles its book value as shown in the financial statements since it is determined using the Conseil's obligations, which are assigned to the Fund under the *Act respecting parental insurance*.

The fair value of the long-term debt is evaluated by discounting future cash flows using an interest rate that applies to borrowings whose conditions and maturity dates resemble those of the Conseil. The fair value is evaluated at \$10 979 410 (2007: \$11 919 288).

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

14. FINANCIAL INSTRUMENTS (cont'd)**Liquidity risk**

The Conseil deems that it holds sufficient financial assets that are easily convertible into cash and credit facilities so as to ensure that it has the funds necessary to meet its current and long-term financial requirements at a reasonable cost, where applicable.

Accounts payable and accrued liabilities vis-à-vis the Ministère de l'Emploi et de la Solidarité sociale's information technologies fund (FTI) represent accrued expenses for computer systems development under way at December 31, 2008 and interest accrued on the long-term debt, which will be invoiced on April 1, 2009 or in fiscal 2009. Accounts payable and accrued liabilities vis-à-vis Revenu Québec represent amounts payable in January 2009.

Interest rate risk

The Conseil is exposed to an interest rate risk on its long-term debt, given that the balance owing by the Conseil bears interest at a variable rate.

The net effect on financial liabilities of a 1% increase or reduction in the rate would increase or decrease the fiscal year's expenses and revenues by \$111 000.

15. COMMITMENTS**MINISTÈRE DE L'EMPLOI ET DE LA SOLIDARITÉ SOCIALE (MESS)****QPIP administration**

Under section 81 of the *Act respecting parental insurance*, the Conseil signed an annually renewable agreement with the Minister of Employment and Social Solidarity regarding administration of QPIP's activities linked to eligibility and benefit payment by the MESS. Under this agreement, the Conseil agreed to pay the expenses the MESS actually incurs. The agreement, which can be terminated at any time by either party, is valid from April 1, 2008 to March 31, 2009. Expenses payable next fiscal year are estimated at:

2009	\$6 950 000

Under this agreement, the Conseil committed, under a capital lease contract, to paying all expenses incurred by the MESS' information technologies fund (FTI) for computer system development in order to carry out QPIP administration activities. According to the FTI, total costs upon completion of work scheduled for 2009 are estimated at \$33 million, \$26.3 million (2007: \$22 million) of which has been incurred as at December 31, 2008 and posted to the financial statements. Payments related to this agreement run until April 2013.

REVENU QUÉBEC**Collection and remittance of QPIP contributions**

Under section 82 of the *Act respecting parental insurance*, the Conseil signed an agreement with the Minister of Revenue for collection and remittance of QPIP contributions. Under this agreement, the Conseil committed to paying collection costs incurred and costs linked to the systems developed by the Minister of Revenue determined by the Government. This agreement, which has no expiry date and can be terminated at any time by either party, has been in effect since April 1, 2007.

Next year's expenses payable are estimated at \$6 668 000. The expenses will be adjusted annually based on Revenu Québec's rate of increase of average wages for the job categories concerned, costs related to Revenu Québec's information technologies fund (FTI) and Québec's consumer price index.

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

16. RELATED PARTY TRANSACTIONS

The Conseil is a related party, in the capacity of trustee, to the Parental Insurance Fund and has done no business with this related party except in the normal course of business and under normal business conditions. These related party transactions, recorded at exchange value, are presented in the body of the financial statements.

MANAGEMENT'S REPORT

The financial statements of the Conseil de gestion de l'assurance parentale (Conseil) were prepared by management, which is responsible for their preparation and presentation, data comprehensiveness and reliability, significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate regarding data comprehensiveness and reliability, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Conseil recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the planning and auditing committee. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Conseil's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the planning and auditing committee to discuss any matter related to the audit.

For the Conseil de gestion de l'assurance parentale,
Genevière Bouchard
President-CEO

Étienne Sabourin, CA, MBA
Financial management

Québec, April 3, 2009

CONSEIL DE GESTION DE L'ASSURANCE PARENTALE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Conseil de gestion de l'assurance parentale as at December 31, 2008 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Conseil's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Conseil's financial position as at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes made to accounting policies for implementation costs, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 3, 2009

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC
(R.S.Q., c. C-57.02)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Gouvernement du Québec subsidies		
Financial assistance	\$84 709 320	\$82 262 237
Administration	6 217 005	6 068 216
	<u>90 926 325</u>	<u>88 330 453</u>
Interest	1 187 577	1 680 707
	<u>92 113 902</u>	<u>90 011 160</u>
EXPENSES		
Financial assistance granted		
Theatre	23 954 128	23 591 660
Circus arts	1 273 760	1 147 175
Music	24 796 409	23 223 725
Visual and media arts	16 011 848	14 737 174
Dance	11 076 758	10 339 093
Literature	4 095 234	3 762 154
Multidisciplinary arts	1 236 075	1 409 392
Other activities	1 392 776	1 084 228
Other clientele (MCCCCF and SODEC) *	4 081 000	4 626 500
	<u>87 917 988</u>	<u>83 921 101</u>
Cancellation of financial assistance granted in previous years	<u>(2 895 965)</u>	<u>(871 596)</u>
	85 022 023	83 049 505
Administrative expenses (Note 4)	7 203 204	6 927 052
	<u>92 225 227</u>	<u>89 976 557</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(111 325)	34 603
OPENING SURPLUS	<u>306 161</u>	<u>271 558</u>
CLOSING SURPLUS	<u>\$194 836</u>	<u>\$306 161</u>

The notes are an integral part of these financial statements.

* Ministère de la Culture, des Communications et de la Condition féminine (MCCCCF), Société de développement des entreprises culturelles (SODEC)

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**BALANCE SHEET**
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$1 579 369	\$1 065 854
Short-term investments at 0.5% maturing until May 2009	19 500 000	16 748 264
Accounts receivable	24 145	42 600
Gouvernement du Québec subsidies receivable	2 306 820	934 000
Prepaid expenses	64 482	41 226
	<u>23 474 816</u>	<u>18 831 944</u>
Capital assets (Note 5)	<u>182 955</u>	<u>188 206</u>
	<u><u>\$23 657 771</u></u>	<u><u>\$19 020 150</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$391 754	\$392 761
Financial assistance payable	19 007 395	16 789 360
Deferred Gouvernement du Québec subsidies	2 945 479	548 384
Provision for vacation time (Note 7)	553 934	493 335
	<u>22 898 562</u>	<u>18 223 840</u>
Provision for sick leave (Note 7)	<u>564 373</u>	<u>490 149</u>
	<u>23 462 935</u>	<u>18 713 989</u>
CUMULATED SURPLUS	<u>194 836</u>	<u>306 161</u>
	<u><u>\$23 657 771</u></u>	<u><u>\$19 020 150</u></u>

TRUST FUNDS (Note 10)**COMMITMENTS** (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Francine Bernier
Yvan Gauthier

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Receipts:		
Government du Québec subsidies	\$91 950 600	\$87 858 479
Interest received	1 205 367	1 682 127
Disbursements:		
Financial assistance granted	(82 803 988)	(76 308 067)
Suppliers and staff	(6 989 909)	(6 676 512)
Interest paid		(12 857)
Net receipts for operating activities	<u>3 362 070</u>	<u>6 543 170</u>
INVESTMENT ACTIVITIES		
Disbursements for investment activities:		
Acquisition of capital assets	<u>(96 819)</u>	<u>(123 938)</u>
FINANCING ACTIVITIES		
Disbursements for financing activities:		
Repayment of long-term debt		<u>(400 000)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	3 265 251	6 019 232
OPENING CASH AND CASH EQUIVALENTS	<u>17 814 118</u>	<u>11 794 886</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 8)	<u>\$21 079 369</u>	<u>\$17 814 118</u>

The notes are an integral part of these financial statements.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Conseil des arts et des lettres du Québec (council) is a corporation established under the *Act respecting the Conseil des arts et des lettres du Québec* (R.S.Q., c. C-57.02) to act in the fields of visual arts, arts and crafts, literature, performing arts, multidisciplinary arts, media arts and in matters of architectural research. The council's goal is to support creation, experimentation and production throughout Québec and to foster the diffusion thereof in Québec and, in compliance with Québec's policies in matters of Canadian intergovernmental affairs and international affairs, elsewhere in Canada and abroad. Another of its goals is to support artists in the development of their craft. Under section 984 of the Québec *Taxation Act* and section 149 of the Canadian *Income Tax Act*, the council does not pay income tax.

The council administers the following trust funds: "Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres", "Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres", "Conférence régionale des élus de Lanaudière – Fonds relève lanauois pour les arts et les lettres 2008-2011", "Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-nationale", "Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie", "Conférence régionale des élus de Montréal – Fonds Montréal Immigration et Minorités visibles pour les arts et les lettres", "Conférence régionale des élus des Laurentides – Fonds des Laurentides pour les arts et les lettres", "Conférence régionale des élus de l'Abitibi-Témiscamingue – Fonds des arts et des lettres de l'Abitibi-Témiscamingue", "Conférence régionale des élus de l'Outaouais – Fonds Outaouais", "Conférence régionale des élus de la Mauricie – Fonds de la Mauricie pour les arts et les lettres 2007-2010" et "Conférence régionale des élus de Montréal – Fonds ORAM CALQ-CRÉ 2008-2010".

2. ACCOUNTING POLICIES

To prepare its financial statements, the council gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the provision for sick leave. Real results may differ from these estimates.

The council's accounts do not include those of the trust funds. The financial information for the latter is disclosed in Note 10.

Cash and cash equivalents

It is the council's policy to present bank balances and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Short-term investment

Short-term investments are recorded at cost or market value, whichever is lower.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the council lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method over their estimated service life as follows:

Computer equipment	3 years
Computer systems development and software	3 years
Furniture	5 years
Audiovisual equipment	5 years
Leasehold improvements	duration of lease

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Amortization of long-term assets

Amortizable long-term assets are examined to determine whether events or changes in the situation indicate that a capital asset no longer contributes to the council's capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its net book value. If so, this decline is posted to results for the period for which it was determined. This depreciation represents the difference between the asset's fair value and its book value.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Financial assistance granted

Financial assistance granted is reported when authorized and when the beneficiary meets the eligibility criteria. Cancellations of financial assistance granted are reported in the fiscal year in which the assistance is cancelled or repaid.

Gouvernement du Québec subsidy reporting

The council uses the deferral method to report contributions. Subsidies allocated are reported and recorded as revenue for the fiscal year in which the related expenditure occurs. Unappropriated subsidies are recorded as revenue for the fiscal year.

Gouvernement du Québec subsidies receivable are recorded in the fiscal year in which the council obtained the funding or carried out the work entitling it to these subsidies.

Investment income

Investment operations are recorded on the date of the transaction and the resulting revenues are reported using the accrual method. Interest income is recorded based on the number of days the investment was held in the fiscal year.

3. CHANGES IN ACCOUNTING POLICIES

Change in accounting framework

Since April 1, 2008, at the Government's request, the council has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). This change does not affect the council's results or cumulated surplus.

The accounting policies affected by this change in accounting framework and their impact, where applicable, are described below.

Financial instruments

Information related to financial instruments has been removed since the standards applying to them do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer systems development and application software are now presented under "Capital assets" rather than "Intangible assets".

CONSEIL DES ARTS ET DES LETTRES DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. ADMINISTRATIVE EXPENSES**

	2009	2008
Salaries and fringe benefits	\$5 418 908	\$5 195 285
Professional, administrative and other services	397 454	405 015
Transportation and communications	570 471	567 388
Rent	582 199	561 585
Materials and supplies	118 233	97 396
Maintenance and repairs	13 869	2 962
Amortization of capital assets	102 070	97 421
	<u>\$7 203 204</u>	<u>\$6 927 052</u>

5. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Furniture	\$68 172	\$44 696	\$23 476	\$26 171
Audiovisual equipment	47 702	30 474	17 228	25 840
Computer equipment	323 549	255 952	67 597	55 541
Leasehold improvements	389 317	379 789	9 528	21 665
Computer systems development and software	448 206	383 080	65 126	58 989
	<u>\$1 276 946</u>	<u>\$1 093 991</u>	<u>\$182 955</u>	<u>\$188 206</u>

6. BANK BORROWING

Under a borrowing order, the council is authorized to contract short-term borrowings up to \$1 000 000, by October 31, 2009, from financial institutions or the Gouvernement du Québec's Financing Fund. At March 31, 2008 and March 31, 2009, no bank borrowing had been contracted.

7. FUTURE FRINGE BENEFITS**Pension plans**

Council staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2009, the council's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPMP, 10.54%.

The council's contributions charged to the year-end statement totalled \$284 246 (2008: \$228 659). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

The provision for sick leave at March 31, 2009 was actualized on using the following long-term economic estimates and assumptions:

Indexation rate	0.6% to 1.1%
Discount rate	2.87% to 4.9%
Average remaining duration of activity for active wage-earners	5 to 11 years

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**7. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave and vacation time (cont'd)**

	2009		2008	
	Sick leave	Vacation time	Sick leave	Vacation time
Opening balance	\$490 149	\$493 335	\$496 759	\$497 311
Annual expenses	111 273	356 748	152 449	372 453
Benefits paid during the year	(37 049)	(296 149)	(159 059)	(376 429)
Closing balance	<u>\$564 373</u>	<u>\$553 934</u>	<u>\$490 149</u>	<u>\$493 335</u>

8. CASH FLOWS

The cash and cash equivalents shown in the statement of cash flows include the following amounts recorded in the balance sheet:

	2009	2008
Cash on hand	\$1 579 369	\$1 065 854
Short-term investments	<u>19 500 000</u>	<u>16 748 264</u>
	<u>\$21 079 369</u>	<u>\$17 814 118</u>

9. RELATED PARTY TRANSACTIONS

Some members of the Board of Directors are management personnel of arts organizations subsidized by the council. The subsidies allocated to these organizations were attributed in the normal course of the council's business and recorded at exchange value. They totalled \$4 432 275 (2008: \$1 197 788).

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the council is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The council did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. TRUST FUNDS**Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres**

The council is the fund trustee. It pays amounts to professional artists and writers and young artists' and writers' groups in the Bas-Saint-Laurent region according to the terms, conditions and procedures in effect.

The agreement signed in December 2002 by the council, the Conseil régional de concertation et de développement du Bas-Saint-Laurent and the Conseil de la Culture du Bas-Saint-Laurent, whose property and assets, rights and obligations were transferred in 2004 to the Conférence régionale des élus du Bas-Saint-Laurent, expired on March 31, 2005 but was renewed in 2006-2007.

Under this agreement, the Commission jeunesse du Bas-Saint-Laurent committed to paying the Conférence régionale des élus du Bas-Saint-Laurent \$90 000 over three years at a rate of \$30 000 per year for 2006-2007, 2007-2008 and 2008-2009. The Conférence régionale des élus du Bas-Saint-Laurent committed to paying the amounts received from the Commission jeunesse du Bas-Saint-Laurent as well as \$60 000 at a rate of \$20 000 per year to the council. The Conférence régionale des élus du Bas-Saint-Laurent pays the council \$50 000 for each of these years for the implementation of Phase 1 – Support for young artists and writers.

Further, under addendum 1 of the agreement, the Conférence régionale des élus du Bas-Saint-Laurent pays \$165 000 over four years: \$7 500 in 2006-2007 and \$157 500 for 2007-2008, 2008-2009 and 2009-2010 (\$52 500 per year) for the implementation of Phase 2 – Support for the consolidation of professional organizations.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus du Bas-Saint-Laurent – Fonds relève du Bas-Saint-Laurent pour les arts et les lettres (cont'd)****Balance Sheet
as at March 31, 2009**

	2009	2008
Assets		
Cash on hand	\$65 984	\$1 935
Accrued interest	11	78
	<u>\$65 995</u>	<u>\$2 013</u>
Liabilities		
Financial assistance payable	\$43 750	
Fund balance	<u>22 245</u>	<u>\$2 013</u>
	<u>\$65 995</u>	<u>\$2 013</u>

**Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$2 013	\$1 528
Increase		
Contributions	175 000	50 000
Interest	232	485
	<u>177 245</u>	<u>52 013</u>
Decrease		
Contributions granted	<u>155 000</u>	<u>50 000</u>
Closing Fund balance	<u>\$22 245</u>	<u>\$2 013</u>

Trust Fund – Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres

The council is the fund trustee. It pays amounts to professional artists and writers and artists' and writers' groups in the Lanaudière region according to the terms, conditions and procedures in effect.

The agreement signed in March 2003 by the council and the Conseil régional de développement de Lanaudière, whose property and assets, rights and obligations were transferred in 2004 to the Conférence régionale des élus de Lanaudière, expired on March 31, 2005. It was not renewed in 2006-2007 and 2007-2008. In fiscal 2008-2009, the partners signed a new agreement and created a new trust fund.

The council and the Conférence régionale des élus de la Lanaudière will agree, in 2009-2010, on how the Fund balance at March 31, 2009 will be used.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de Lanaudière – Fonds Lanaudière pour les arts et les lettres (cont'd)****Balance Sheet
as at March 31, 2009**

	2009	2008
Assets		
Cash on hand	\$186	\$181
Accrued interest		1
	<u>\$186</u>	<u>\$182</u>
Liabilities and Fund balance	<u>\$186</u>	<u>\$182</u>
	<u>\$186</u>	<u>\$182</u>

**Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$182	\$174
Increase		
Interest	4	8
Closing Fund balance	<u>\$186</u>	<u>\$182</u>

Trust Fund – Conférence régionale des élus de Lanaudière – Fonds relève lanaudois pour les arts et les lettres 2008-2011

The council is the fund trustee. It pays amounts to professional artists and writers and young artists' and writers' groups according to the terms, conditions and procedures in effect.

An agreement was signed in March 2009 by the council, the Conférence régionale des élus de Lanaudière and the Forum jeunesse Lanaudière.

Under this agreement, each partner, that is, the Conférence régionale des élus de Lanaudière and the Forum jeunesse Lanaudière, committed to paying the council \$75 000 over three years at a rate of \$25 000 per year for 2008-2009, 2009-2010 and 2010-2011.

**Balance Sheet
as at March 31, 2009**

	2009
Assets	
Cash on hand	
Contribution receivable	<u>\$50 000</u>
	<u>\$50 000</u>
Liabilities	
Financial assistance payable	\$47 250
Fund balance	<u>2 750</u>
	<u>\$50 000</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de Lanaudière – Fonds relève lanaudois pour les arts et les lettres 2008-2011 (cont'd)****Change in Fund balance
for the year ended March 31, 2009**

	<u>2009</u>
Opening Fund balance	
Increase	
Contributions	<u>\$50 000</u>
	50 000
Decrease	
Contributions granted	<u>47 250</u>
Closing Fund balance	<u><u>\$2 750</u></u>

Trust Fund – Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-Nationale

The council is the fund trustee. It pays amounts to professional artists and writers and young artists' and writers' groups in the Capitale-Nationale region according to the terms, conditions and procedures in effect.

An agreement was signed in April 2006 by the council, the Conférence régionale des élus de la Capitale-Nationale and one of its constituents, the Forum jeunesse de la région de Québec.

Under this agreement, the Conférence régionale des élus de la Capitale-Nationale committed to paying the council \$160 000 over three years, with \$60 000 coming from the Forum jeunesse de la région de Québec, at a rate of \$53 000 for 2006-2007, \$53 000 for 2007-2008 and \$54 000 for 2008-2009.

**Balance Sheet
as at March 31, 2009**

	<u>2009</u>	<u>2008</u>
Assets		
Cash on hand	\$5 911	\$246
Accrued interest	<u>3</u>	<u>1</u>
	<u><u>\$5 914</u></u>	<u><u>\$247</u></u>
Liabilities		
Financial assistance payable	\$5 192	
Fund balance	<u>722</u>	<u>\$247</u>
	<u><u>\$5 914</u></u>	<u><u>\$247</u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de la Capitale-Nationale – Soutien aux artistes et aux écrivains de la relève de la région de la Capitale-Nationale (cont'd)****Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$247	\$195
Increase		
Contribution	54 000	53 000
Interest	153	178
	54 400	53 373
Decrease		
Contribution granted	53 678	53 126
Closing Fund balance	\$722	\$247

Trust Fund – Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie

The council is the fund trustee. It pays amounts to professional artists and writers and artists' and writers' groups in the Estrie region according to the terms, conditions and procedures in effect.

An agreement was signed in September 2006 by the council, the Conférence régionale des élus de l'Estrie and the Conseil de la culture de l'Estrie.

Under this agreement, the Conférence régionale des élus de l'Estrie committed to paying the Conseil de la culture de l'Estrie \$120 000 over three years at a rate of \$40 000 per year for 2006-2007, 2007-2008 and 2008-2009. The Conseil de la Culture de l'Estrie committed to paying the amounts received from the Conférence régionale des élus de l'Estrie as well as \$30 000 at a rate of \$10 000 per year to the council. The Conseil de la culture de l'Estrie pays the council \$50 000 for each of these years.

**Balance Sheet
as at March 31, 2009**

	2009	2008
Assets		
Cash on hand	\$349	\$272
Accrued interest	1	70
	\$350	\$342
Liabilities		
Fund balance	\$350	\$342
	\$350	\$342

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de l'Estrie – Mesure d'aide financière destinée aux artistes et aux écrivains de l'Estrie (cont'd)****Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$342	\$163
Increase		
Contribution	50 000	50 000
Interest	8	179
	50 350	50 342
Decrease		
Contribution granted	50 000	50 000
Closing Fund balance	\$350	\$342

Trust Fund – Conférence régionale des élus de Montréal – Fonds Montréal Immigration et Minorités visibles pour les arts et les lettres

The council is the fund trustee. It pays amounts to young artists and professional immigrant writers or writers belonging to visible minorities according to the terms, conditions and procedures in effect.

An agreement was signed in November 2007 by the council and the Conférence régionale des élus de Montréal, the Canada Council for the Arts, the Fondation du Grand Montréal, the Conseil des arts de Montréal, the Forum jeunesse de l'Île de Montréal, the Fondation du maire de Montréal pour la jeunesse, the Minister of Immigration and Cultural Communities, the Minister responsible for Canadian Intergovernmental Affairs, Aboriginal Affairs, Francophones within Canada, the Reform of Democratic Institutions and Access to Information and the Minister of Culture, Communications and the Status of Women.

Under this agreement, the Canada Council for the Arts, the Conférence régionale des élus de Montréal, the Minister of Immigration and Cultural Communities, the Fondation du Grand Montréal and the council committed to paying \$50 000, \$40 000, \$10 000, \$10 000 and \$50 000 per year to the Fund for 2007-2008, 2008-2009 and 2009-2010 for a total of \$160 000 per year and \$480 000 by the end of the agreement.

**Balance Sheet
as at March 31, 2009**

	2009	2008
Assets		
Cash on hand	\$788	\$50 000
Accrued interest	1	5
Contribution receivable	170 000	110 000
	\$170 789	\$160 005
Liabilities		
Financial assistance payable	\$160 000	\$160 000
Advance to repay to CALQ	10 000	
Fund balance	789	5
	\$170 789	\$160 005

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2009

10. TRUST FUNDS (cont'd)

Trust Fund – Conférence régionale des élus de Montréal – Fonds Montréal Immigration et Minorités visibles pour les arts et les lettres (cont'd)

Changes in Fund balance for the year ended March 31, 2009

	2009	2008
Opening Fund balance	\$5	
Increase		
Contribution	160 000	\$160 000
Interest	784	5
	160 789	160 005
Decrease		
Contribution granted	160 000	160 000
Closing Fund balance	\$789	\$5

Trust Fund – Conférence régionale des élus des Laurentides – Fonds des Laurentides pour les arts et les lettres

The council is the fund trustee. It pays amounts to professional artists and writers and artists' and writers' groups in the Laurentides region.

An agreement was signed in December 2007 by the council, the Conférence régionale des élus des Laurentides, the Forum jeunesse des Laurentides and the Conseil de la culture des Laurentides.

Under this agreement, the Forum jeunesse des Laurentides committed to paying the Conférence régionale des élus des Laurentides \$150 000 over two years—\$75 000 in 2007-2008 and in 2008-2009. The Conseil de la culture des Laurentides committed to paying \$30 000 to the Conférence régionale des élus des Laurentides at a rate of \$10 000 per year for 2007-2008, 2008-2009 and 2009-2010. The Conférence régionale des élus des Laurentides committed to paying the council the amounts received from the Forum jeunesse des Laurentides and the Conseil de la culture des Laurentides, as well as \$60 000 per year over three years at a rate of \$20 000 per year for 2007-2008, 2008-2009 and 2009-2010.

Balance Sheet as at March 31, 2009

	2009	2008
Assets		
Cash on hand	\$26 532	\$105 000
Accrued interest	14	190
Contribution receivable	105 000	
	\$131 546	\$105 190
Liabilities		
Financial assistance payable	\$84 399	\$79 524
Fund balance	47 147	25 666
	\$131 546	\$105 190

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus des Laurentides – Fonds des Laurentides pour les arts et les lettres (cont'd)****Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$25 666	
Increase		
Contribution	105 000	\$105 000
Interest	880	190
	131 546	105 190
Decrease		
Contribution granted	84 399	79 524
Closing Fund balance	<u>\$47 147</u>	<u>\$25 666</u>

Trust Fund – Conférence régionale des élus de l'Abitibi-Témiscamingue – Fonds des arts et des lettres de l'Abitibi-Témiscamingue

The council is the fund trustee. It pays amounts to professional artists, writers and artists' and writers' groups and professional artists' organizations in the Abitibi-Témiscamingue region according to the terms, conditions and procedures in effect.

An agreement was signed in January 2008 by the council and the Conférence régionale des élus de l'Abitibi-Témiscamingue.

Under this agreement, the Conférence régionale des élus de l'Abitibi-Témiscamingue committed to paying the council \$225 000 over three years, that is, \$150 000 to support professional artists and writers and \$75 000 to support the consolidation of professional artists organizations at a rate of \$75 000 per year for 2007-2008, 2008-2009 and 2009-2010.

**Balance Sheet
as at March 31, 2009**

	2009	2008
Assets		
Cash on hand	\$741	\$75 000
Accrued interest		136
	<u>\$741</u>	<u>\$75 136</u>
Liabilities		
Financial assistance payable		\$75 000
Fund balance	<u>\$741</u>	<u>136</u>
	<u>\$741</u>	<u>\$75 136</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. TRUST FUNDS (cont'd)****Trust Fund – Conférence régionale des élus de l'Abitibi-Témiscamingue – Fonds des arts et des lettres de l'Abitibi-Témiscamingue (cont'd)****Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening Fund balance	\$136	
Increase		
Contribution	75 000	\$75 000
Interest	605	136
	75 741	75 136
Decrease		
Contribution granted	75 000	75 000
Closing Fund balance	<u>\$741</u>	<u>\$136</u>

Trust Fund – Conférence régionale des élus de l'Outaouais – Fonds Outaouais

The council is the fund trustee. It pays amounts to professional artists and writers, artists' and writers' groups and professional artists' organizations in the Outaouais region according to the terms, conditions and procedures in effect.

An agreement was signed in March 2008 by the council, the Conférence régionale des élus de l'Outaouais and the Table jeunesse de l'Outaouais.

Under this agreement, the Table Jeunesse de l'Outaouais committed to paying the Conférence régionale des élus de l'Outaouais \$30 000 over two years, that is, \$15 000 in 2008-2009 and 2009-2010. The Conférence régionale des élus de l'Outaouais committed to paying the council the amounts received from the Table Jeunesse de l'Outaouais plus \$150 000 over two years at a rate of \$75 000 per year for 2008-2009 and 2009-2010. The Ville de Gatineau committed to paying the council \$60 000 over two years at a rate of \$30 000 per year for 2008-2009 and 2009-2010.

**Balance Sheet
as at March 31, 2009**

	2009
Assets	
Cash on hand	\$438
Accrued interest	11
	<u>\$449</u>
Liabilities	
Financial assistance payable	
Fund balance	<u>\$449</u>
	<u>\$449</u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES COMPLÉMENTAIRES (suite)
31 mars 2009

10. TRUST FUNDS (cont'd)**Trust Fund – Conférence régionale des élus de l'Outaouais – Fonds Outaouais (cont'd)**

**Changes in Fund balance
for the year ended March 31, 2009**

	<u>2009</u>
Opening Fund balance	
Increase	
Contributions	\$119 124
Interest	<u>69</u>
	119 193
Decrease	
Contributions granted	<u>118 744</u>
Closing Fund balance	<u><u>\$449</u></u>

Trust Fund – Conférence régionale des élus de la Mauricie – Fonds de la Mauricie pour les arts et les lettres 2007-2010

The council is the fund trustee. It pays amounts to professional artists and writers and groups encouraging young professional artists in the Mauricie region according to the terms, conditions and procedures in effect.

An agreement was signed in December 2007 by the council, the Conférence régionale des élus de la Mauricie and the Forum jeunesse de la Mauricie.

Under this agreement, the Conférence régionale des élus de la Mauricie committed to paying the council \$150 000 over three years at a rate of \$50 000 per year for 2007-2008, 2008-2009 and 2009-2010. Further, the Forum Jeunesse Mauricie committed to paying the council \$120 000 over three years at a rate of \$40 000 per year for 2007-2008, 2008-2009 and 2009-2010.

**Balance Sheet
as at March 31, 2009**

	<u>2009</u>
Assets	
Cash on hand	\$30 954
Accrued interest	<u>36</u>
	<u><u>\$30 990</u></u>
Liabilities	
Financial assistance payable	\$14 400
Fund balance	<u>16 590</u>
	<u><u>\$30 990</u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES COMPLÉMENTAIRES (suite)
31 mars 2009

10. TRUST FUNDS (cont'd)

Trust Fund – Conférence régionale des élus de la Mauricie – Fonds de la Mauricie pour les arts et les lettres 2007-2010 (cont'd)

**Changes in Fund balance
for the year ended March 31, 2009**

	<u>2009</u>
Opening Fund balance	
Increase	
Contributions	\$180 000
Interest	<u>590</u>
	180 590
Decrease	
Contributions granted	<u>164 000</u>
Closing Fund balance	<u><u>\$16 590</u></u>

Trust Fund – Conférence régionale des élus de Montréal– Fonds ORAM CALQ-CRÉ 2008-2010

The council is the fund trustee. It pays amounts to young professional artists and writers and professional artists' organizations in the Montréal region according to the terms, conditions and procedures in effect.

An agreement was signed in January 2008 by the council and the Conférence régionale des élus de Montréal.

Under this agreement, the Conférence régionale des élus de Montréal committed to paying the council \$75 000 over two years at a rate of \$37 500 per year for 2008-2009 and 2009-2010.

**Balance Sheet
as at March 31, 2009**

	<u>2009</u>
Assets	
Cash on hand	\$19 005
Accrued interest	<u>19</u>
	<u><u>\$19 024</u></u>
Liabilities	
Financial assistance payable	\$19 003
Fund balance	<u>21</u>
	<u><u>\$19 024</u></u>

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC

NOTES COMPLÉMENTAIRES (suite)
31 mars 2009

10. TRUST FUNDS (cont'd)**Trust Fund – Conférence régionale des élus de Montréal– Fonds ORAM CALQ-CRÉ 2008-2010 (cont'd)**

**Changes in Fund balance
for the year ended March 31, 2009**

	<u>2009</u>
Opening Fund balance	
Increase	
Contributions	\$37 500
Interest	<u>21</u>
	37 521
Decrease	
Contributions granted	<u>37 500</u>
Closing Fund balance	<u><u>\$21</u></u>

11. COMMITMENTS

At March 31, 2009, commitments for paying financial support to arts organizations having signed a contract with the council were \$11 615 000. Amounts payable over the coming fiscal years totalled \$5 965 000 in 2009-2010 and \$5 650 000 in 2010-2011.

12. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Conseil des arts et des lettres du Québec (council) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The council recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the council's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Yvan Gauthier
President and Chief Executive Officer

Québec, May 15, 2009

CONSEIL DES ARTS ET DES LETTRES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Conseil des arts et des lettres du Québec as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of council management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the council's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 15, 2009

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC
(R.S.Q., c. C-62.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the period ended June 30, 2008

	2008 (12 months)	2007 (3 months) restated
REVENUES		
Gouvernement du Québec subsidies (Note 4)	\$22 303 290	\$6 164 800
Tuition fees	619 611	90 417
Interest	202 504	8 674
Other revenue	169 636	20 352
	<u>23 295 041</u>	<u>6 284 243</u>
EXPENSES		
Salaries and fringe benefits	14 939 252	3 978 787
Rent	4 970 828	1 053 373
Professional, administrative, and other services	1 239 920	278 547
Maintenance services	1 037 446	264 469
Travelling expenses	421 865	140 662
Supplies and purchases	427 259	62 330
Bank charges	2 653	475
Loss on disposal of capital assets	19 183	
Amortization of capital assets	300 122	70 715
Writing-off of note receivable from the Gouvernement du Québec (Note 6)	16 738	
	<u>23 375 266</u>	<u>5 849 358</u>
(DEFICIENCY) SURPLUS OF REVENUES OVER EXPENSES	(80 225)	434 885
OPENING CUMULATED SURPLUS	<u>434 885</u>	
CLOSING CUMULATED SURPLUS	<u><u>\$354 660</u></u>	<u><u>\$434 885</u></u>

The notes are an integral part of these financial statements.

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

BALANCE SHEET
as at June 30, 2008

	2008	2007 restated
ASSETS		
Current assets		
Cash on hand	\$2 128 453	\$181 632
Short-term investments, banker's acceptance at rate of 3.04 %	557 014	
Advance to the Consolidated Revenue Fund – interest-free		1 447 794
Accounts receivable (Note 5)	2 427 480	1 731 538
Prepaid expenses	92 024	20 520
	<u>5 204 971</u>	<u>3 381 484</u>
Note receivable from the Gouvernement du Québec (Note 6)	3 464 771	5 090 376
Gouvernement du Québec subsidy receivable (Note 7)	404 501	
Capital assets (Note 8)	<u>2 231 724</u>	<u>2 035 116</u>
	<u><u>\$11 305 967</u></u>	<u><u>\$10 506 976</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$1 719 448	\$924 100
Payment on amount owing to the Gouvernement du Québec (Note 11)	267 760	348 000
Provision for vacation time (note 12)	1 706 651	1 635 476
Gouvernement du Québec deferred subsidy (Note 13)	51 042	
Deferred revenue	76 700	70 100
	<u>3 821 601</u>	<u>2 977 676</u>
Provision for sick leave (Note 12)	5 343 099	5 383 888
Amount owing to the Gouvernement du Québec (Note 11)	1 347 428	1 615 188
Gouvernement du Québec subsidy receivable (Note 13)	<u>343 840</u>	
	<u>10 855 968</u>	<u>9 976 752</u>
EQUITY		
Gouvernement du Québec contribution	95 339	95 339
Cumulated surplus	354 660	434 885
	<u>449 999</u>	<u>530 224</u>
	<u><u>\$11 305 967</u></u>	<u><u>\$10 506 976</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors
Francine Grégoire, Chairman
Nicolas Desjardins, Director General

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC
STATEMENT OF CASH FLOWS
 for the period ended June 30, 2008

	2008 (12 months)	2007 (3 months) restated
OPERATING ACTIVITIES		
(Deficiency) surplus of revenues over expenses	\$(80 225)	\$434 885
Items not affecting cash flows		
Payment of the deferred subsidy from the Gouvernement du Québec	9 619	
Writing-off of note receivable from the gouvernement du Québec	16 738	
Loss on disposal of capital assets	19 183	
Amortization of capital assets	300 122	70 715
	<u>265 437</u>	<u>505 600</u>
Change in non-cash items related to operations		
Accounts receivable	(695 942)	(27 099)
Prepaid expenses	(71 504)	(20 520)
Note receivable from the Gouvernement du Québec	1 608 867	
Gouvernement du Québec subsidy receivable	(404 501)	
Accounts payable and accrued liabilities	619 013	799 075
Gouvernement du Québec deferred subsidy	385 263	(804)
Deferred revenue	6 600	
Provision for vacation time and sick leave	30 386	412 024
	<u>1 478 182</u>	<u>1 162 676</u>
Cash flows from operating activities	<u>1 743 619</u>	<u>1 668 276</u>
INVESTMENT ACTIVITIES		
Cash flows used for investments activities		
Capital asset acquisitions	(339 578)	(38 850)
FINANCING ACTIVITIES		
Cash flows used for financing activities		
Payment on the sum owing to the Gouvernement du Québec	(348 000)	
INCREASE IN CASH AND CASH EQUIVALENTS	1 056 041	1 629 426
OPENING CASH AND CASH EQUIVALENTS	<u>1 629 426</u>	
CLOSING CASH AND CASH EQUIVALENTS (Note 14)	<u><u>\$2 685 467</u></u>	<u><u>\$1 629 426</u></u>

The notes are an integral part of these financial statements.

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

1. CONSTITUTION AND PURPOSE

The Conservatoire de musique et d'art dramatique du Québec was established by the *Act respecting the Conservatoire de musique et d'art dramatique du Québec* (R.S.Q., c. C-62.1) and amended by the *Act to amend the Act respecting the Conservatoire de musique et d'art dramatique du Québec* (2006, c. 26), which modifies the financial provisions governing the Conservatoire to make it non-budgetary as of March 31, 2007.

The purpose of the Conservatoire is to administer and operate, in various regions of Québec, institutions providing instruction in music and institutions providing instruction in dramatic art for the professional training and continuing education of performing artists and creative artists.

A further object of the Conservatoire establishments is to foster and encourage, in their communities, initial training of high standard in the field of music, as well as the presence and vitality of bodies essential to the music world.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Cash and cash equivalents

The Conservatoire's policy consists in presenting bank balances and short-term convertible temporary investments, and the advance to the Gouvernement du Québec's Consolidated Revenue Fund under cash and cash equivalents.

Temporary investments

Temporary investments are recorded at the lesser of cost or market value.

Capital assets

Capital assets are recognized at cost and amortized over their service life using the straight-line method and the following durations:

Specialized equipment	10 and 20 years
Furniture, office and audiovisual equipment	5 years
Leasehold improvements	5 years
Computer equipment	3 years

The Conservatoire regularly examines its capital assets' book value by comparing it to that of unrealized future cash flows they are expected to generate. Any surplus book value over the fair value is posted to the results for the period in which the depreciation was determined. Estimating future cash flows and determining the fair value require exercising professional judgement and may vary over time.

Provision for sick leave and vacation time

The obligations resulting from sick leave and vacation time owing to Conservatoire employees are recognized as liabilities. The annual is recognized based on the advantages earned by the employees during the fiscal year.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the agency lacks sufficient information to apply the accounting procedure for defined-benefit plans.

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

2. ACCOUNTING POLICIES (cont'd)

Revenue reporting

The unappropriated subsidies are reported as revenues when they were received or receivable if the amount can be reasonably estimated and its reception is reasonably ensured. Where applicable, the unappropriated subsidies are reported as revenues for the fiscal year during which the related charges are incurred.

The tuition fees are reported as revenue based on the period covered by these fees.

Income interest is reported after a number of days of holding cash during the fiscal years.

Other revenues are reported when services are rendered or earned, and the measurement and recovery are reasonably certain.

3. ADJUSTMENT OF ERRORS IN THE FINANCIAL STATEMENTS OF PREVIOUS FISCAL YEARS

Note receivable from the Gouvernement du Québec and provision for vacation time

The financial statements for the fiscal year ended June 30, 2007 were restated to include the obligations stemming from the accumulated vacation time of all staff of the Conservatoire. These obligations were not previously recognized for certain professionals. The adjustment of these obligations includes \$993 975, which should have been recorded at the time of transfer of the assets and liabilities of the ministère de la Culture, des Communications et de la Condition féminine, on March 31, 2007. A note receivable from the Gouvernement du Québec for an equivalent amount has been recognized.

This adjustment has increased (reduced) the following items on the financial statements:

	<u>2007</u>
OPERATIONS	
Salaries and fringe benefits	\$111 707
BALANCE SHEET	
Note receivable from the Gouvernement du Québec (long-term)	\$993 975
Provision for vacation time	1 105 682
Cumulated surplus	(111 707)

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	<u>2008</u>	<u>2007</u>
Ministère de la Culture, des Communications et de la Condition féminine		
Operating expenses	\$22 268 671	\$6 164 800
Transfer of the deferred subsidy (Note 13)	9 619	
Ministère du Conseil exécutif – specific operating subsidy	25 000	
	<u>\$22 303 290</u>	<u>\$6 164 800</u>

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008**5. ACCOUNTS RECEIVABLE**

	2008	2007
Gouvernement du Québec subsidies receivable (Note 6)	\$1 608 867	\$1 516 963
Accounts receivable – Ministère de la Culture, des Communications et de la Condition féminine ¹ - Pay equity	232 471	49 186
Accounts receivable – Société immobilière du Québec ¹	9 568	4 883
Taxes receivable	556 832	18 956
Insurance revenues		139 550
Interest receivable	2 027	
Other	17 715	2 000
	<u>\$2 427 480</u>	<u>\$1 731 538</u>

(1) Related party under common control

6. NOTE RECEIVABLE TO THE GOUVERNEMENT DU QUÉBEC

The note receivable from the Gouvernement du Québec does not bear interest and represents the amounts that are to be transferred to the Conservatoire related to banks of sick leave and vacation time earned by the employees before April 1, 2007. The note receivable will end on March 2015.

	2008	2007 restated
Note receivable ¹	\$5 073 638	\$6 607 339
Note receivable in the short term (Note 5)	<u>1 608 867</u>	<u>1 516 963</u>
Note receivable in the long term	<u>\$3 464 771</u>	<u>\$5 090 376</u>

Cashing the note receivable from the Gouvernement du Québec breaks down as follows:

2009	\$1 608 867
2010	614 892
2011	614 892
2012	614 892
2013	614 892
2014 and 2015	<u>1 005 203</u>
	<u>\$5 073 638</u>

(1) The Conservatoire struck off \$16 738 (2007: zero) following information obtained concerning the initial evaluation of banked vacation time and sick leave.

7. GOUVERNEMENT DU QUÉBEC SUBSIDY RECEIVABLE

The subsidy receivable from the Gouvernement du Québec, presented in the long term, corresponds to the total commitments by the Gouvernement du Québec concerning capital assets and their maintenance, reduced by repayments of capital on the long-term debt to be made during the next fiscal year. This subsidy is cashable according to the attendant payments on the long-term debt.

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

8. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net value
Specialized equipment	\$2 393 041	\$315 846	\$2 077 195
Furniture, office and audiovisual equipment	58 722	8 362	50 360
Leasehold improvements	35 804	1 193	34 611
Computer equipment	110 998	41 440	69 558
	<u>\$2 598 565</u>	<u>\$366 841</u>	<u>\$2 231 724</u>
			<u>\$2 035 116</u>

Certain assets (musical instruments, accessories, theatre equipment, instructional and audiovisual material, books, reference works, bibliographies, monographs, audio material, scores and other assets) held by the Conservatoire are not accounted for, bearing in mind that their transfer as at March 31, 2007 was effected at zero value.

9. BANK LOAN

Pursuant to a loan decree, the Conservatoire is authorized to contract short-term loans up to a total amount of existing loans of \$2 010 000, until November 30, 2008, from financial institutions or the Financing Fund of the Gouvernement du Québec. This amount can be broken down as follows:

- \$1 000 000 for operations
- \$1 010 000 for the maintenance of assets.

As at June 30, 2007 and 2008, no bank borrowing had been contracted.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Salaries and fringe benefits	\$1 053 123	\$459 231
Suppliers	666 325	464 869
	<u>\$1 719 448</u>	<u>\$924 100</u>

11. AMOUNT OWING TO THE GOUVERNEMENT DU QUÉBEC

	2008	2007
Interest-free, repayable at the rate of the annual amortization charges on the assets transferred	\$1 615 188	\$1 963 188
Minus: Instalment payable in the short term	<u>267 760</u>	<u>348 000</u>
	<u>\$1 347 428</u>	<u>\$1 615 188</u>

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

11. AMOUNT OWING TO THE GOUVERNEMENT DU QUÉBEC (cont'd)

Capital instalments payable in the next 5 fiscal years and thereafter on the Gouvernement du Québec borrowing break down as:

2009	\$267 760
2010	253 593
2011	241 791
2012	223 394
2013	193 760
2014 and thereafter	<u>434 890</u>
	<u>\$1 615 188</u>

The Ministère de la Culture, des Communication et de la Condition féminine will pay the Conservatoire a subsidy to be used to pay the annual portion of the repayment of this debt, according to the available funding allocated annually to the Department by the National Assembly.

12. FUTURE FRINGE BENEFITS**Pension plans**

Conservatoire staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

As at January 1, 2008, the RREGOP contribution rate increased from 7.06% to 8.19% of the covered payroll and that of the RRPE from 7.781% to 10.54%. The contribution rate of the RRF is unchanged at 7.25%.

The Conservatoire's contributions charged to the year-end statement totalled \$661 658 (2007: \$140 826). Its liability towards these Government plans is restricted to its employer contributions.

Provision for vacation time and sick leave

	2008		2007	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$1 635 476	\$5 383 888	\$1 451 238	\$5 156 102
Annual expenses	2 019 147	707 492	563 131	262 515
Benefits paid during the year	<u>(1 947 972)</u>	<u>(748 281)</u>	<u>(378 893)</u>	<u>(34 729)</u>
Closing balance	<u>\$1 706 651</u>	<u>\$5 343 099</u>	<u>\$1 635 476</u>	<u>\$5 383 888</u>

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

13. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDY

The deferred subsidy concerns capital assets and their maintenance in future fiscal years. The following changes in the balance occurred:

	<u>2008</u>
Opening balance	
Subsidies received during the fiscal year intended to cover expenses in future fiscal years	<u>\$404 501</u>
	404 501
Subsidies recognized as revenues for the fiscal year (Note 4)	(9 619)
Subsidies intended to cover expenses in the next fiscal year	<u>(51 042)</u>
Closing balance	<u><u>\$343 840</u></u>

14. CASH FLOWS

The cash and cash equivalents shown in the statement of cash flows include the following amounts recorded on the balance sheet:

	<u>2008</u>	<u>2007</u>
Cash on hand	\$2 128 453	\$181 632
Short-term investments	557 014	
Advance to the Consolidated Revenue Fund		<u>1 447 794</u>
Cash and cash equivalents	<u><u>\$2 685 467</u></u>	<u><u>\$1 629 426</u></u>

At June 30, 2008, the item "Accounts payable and accrued liabilities" included capital asset acquisitions representing \$204 928 \$ (2007: \$28 593).

15. CONTRACTUAL OBLIGATIONS

The Conservatoire has made commitments to various suppliers to lease office automation equipment.

The leasing costs for this equipment for the period ended June 30, 2008 totalled \$28 839 (2007: \$10 420). Minimum future payments are:

2009	\$32 529
2010	29 387
2011	23 794
2012	7 313
2013	<u>1 578</u>
	<u><u>\$94 601</u></u>

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

16. RELATED PARTY TRANSACTIONS

The main transactions conducted with related parties can be broken down as follows:

	2008	2007
Rents and maintenance – Société immobilière du Québec	\$4 772 919	\$1 030 327
Leasehold improvements – Société immobilière du Québec	35 804	
Professional and ancillary services, rent – ministère de la Culture, des Communications et de la Condition féminine	959 579	222 151
Ancillary services, supplies and communications – Centre des services partagés du Québec	241 213	34 591

These operations were recognized at exchange value.

The Société du Grand théâtre de Québec offers the Conservatoire rooms free of charge.

In addition to the related party transactions disclosed in its financial statements, the Conservatoire is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Conservatoire did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

17. FONDATION WILFRID-PELLETIER

The Fondation Wilfrid-Pelletier, set up on November 29, 1982 under Part III of Québec's Companies Act, is a charitable organization, fiscally speaking, mandated to collect donations in order to grant scholarships to students of the Conservatoire de musique et d'art dramatique du Québec. The Fondation's Board of Directors is independent.

To maximize student scholarships, the Conservatoire paid certain expenses of \$7 810 (2007: \$2 270) for the Fondation.

18. FINANCIAL INSTRUMENTS**Fair value**

The fair value of short-term assets and liabilities equals their book value, given that they mature in the short term.

The fair value of the note receivable from the Ministère de la Culture, des Communication et de la Condition féminine cannot be measured, given the absence of a market for this type of financial instrument.

19. COMPARATIVE FIGURES

Certain comparative figures for the preceding fiscal year have been reclassified to bring them into line with the presentation adopted for the current fiscal year.

CONSERVATOIRE DE MUSIQUE ET D'ART DRAMATIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Conservatoire de musique et d'art dramatique du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Conservatoire recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Conservatoire's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Nicolas Desjardins
Director General

Alain Boudreault
Acting Director of Administrative Services

Québec, November 10, 2008

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Conservatoire de musique et d'art dramatique du Québec as at June 30, 2008 and the statements of operations, cumulative surplus and cash flows for the year then ended. These financial statements are the responsibility of the Conservatoire's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Conservatoire as at June 30, 2008, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, November 10, 2008

CORPORATION D'HÉBERGEMENT DU QUÉBEC
(R.S.Q., c. C-68.1)

STATEMENT OF INCOME
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008 (Restated)
INCOME		
Income from interest	88 758	145 606
Rental income:		
– Health network (Note 4)	151 888	160 212
– Others – net (Note 5)	864	398
Management fees on institution projects	4 504	3 270
Consulting fees	2 546	1 313
Transfers and contributions from organizations outside the Government	68	1 211
Subsidy from the Government of Canada (Note 6)	181	
Gain from the disposal of fixed capital assets and properties held for sale		719
Depreciation of deferred contributions	5 378	4 735
Income from withdrawn projects under consideration	263	1 786
Other income	443	235
	<u>254 893</u>	<u>319 485</u>
EXPENSES		
Financial costs – net (Note 7)	167 158	221 354
Depreciation (Note 8)	60 582	58 527
General and administrative expenses (Note 9)	11 209	10 643
Consulting costs	1 667	781
Reduction in the value of fixed capital assets		2 530
Costs for withdrawn projects under consideration	263	1 786
Network building information system		144
Loss from the disposal of fixed capital assets and properties held for sale	439	
Works of art	361	270
Other expenses		593
Client rebates		3 283
	<u>241 679</u>	<u>299 911</u>
NET PROFIT (Note 3)	<u>13 214</u>	<u>19 574</u>

The notes are an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

RETAINED EARNINGS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE		
Established balance	171 487	153 907
Adjustment due to the change in authoritative accounting pronouncements (Note 3)	<u>(6 331)</u>	<u>(8 325)</u>
Adjusted opening balance	165 156	145 582
Net profit	<u>13 214</u>	<u>19 574</u>
CLOSING BALANCE	<u>178 370</u>	<u>165 156</u>

The notes are an integral part of the financial statements.

STATEMENT OF CONTRIBUTED SURPLUS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE		
Established balance	22 306	18 505
Adjustment due to the change in authoritative accounting pronouncements (Note 3)	<u>(2 366)</u>	<u>(1 155)</u>
Adjusted opening balance	19 940	17 350
Surplus of the fair value over the cost of land acquired for minor or zero consideration from organizations within the Government's reporting entity	<u></u>	<u>2 590</u>
CLOSING BALANCE	<u>19 940</u>	<u>19 940</u>

The notes are an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u> (Restated)
ASSETS		
Accounts receivable (Note 10)	47 213	47 591
Prepaid expenses	216	379
Accounts receivable from the Gouvernement du Québec for withdrawn projects under consideration	1 846	1 713
Rents receivable (Note 11)	7 785	8 022
Amounts receivable from the Gouvernement du Québec relating to the long-term debt (Note 12)	25 480	62 198
Loans (Note 13)	1 935 133	1 851 133
Receivables – institutional projects (Note 14)	404 879	436 822
Fixed capital assets (Note 15)	1 984 331	1 947 235
Properties held for sale		775
Projects under consideration	22 726	28 183
Other assets (Note 16)	37 083	29 749
	<u>4 466 692</u>	<u>4 413 800</u>
LIABILITIES		
Outstanding cheques less cash	4 778	3 070
Accounts and contract holdbacks payable (Note 17)	50 091	40 081
Accrued interest (Note 18)	31 717	43 985
Short-term loans (Note 19)	2 196 428	2 103 290
Long-term debt (Note 20)	1 803 932	1 853 950
Other liabilities elements (Note 21)	171 436	174 328
	<u>4 258 382</u>	<u>4 218 704</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 22)	10 000	10 000
Contributed surplus	19 940	19 940
Retained earnings	178 370	165 156
	<u>208 310</u>	<u>195 096</u>
	<u>4 466 692</u>	<u>4 413 800</u>

The notes are an integral part of the financial statements.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES (Note 25)

For the Board of Directors,
Michel Gagnon, Chair
Louise Rochette, Chair of the Audit Committee

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit	13 214	19 574
Elements with no impact on cash and cash equivalents		
Interest income chargeable to accounts receivable, loans and institution projects	(40 309)	(67 269)
Management fees chargeable to institution projects and CPE loans	(4 502)	(3 270)
Contributions from organizations outside the Government	(68)	(1 171)
Profit from disposal of fixed capital assets and properties held for sale		(719)
Management fees chargeable to fixed capital assets and projects under consideration	(1 162)	(983)
Interest chargeable to fixed capital assets, projects under consideration and other assets	(5 075)	(8 432)
Interest on irregular coupon bonds	9 663	8 745
Reduction in the value of fixed capital assets		2 530
Loss from disposal of fixed capital assets and properties held for sale	439	
Client rebates		3 283
Depreciation		
Fixed capital assets	61 364	59 270
Other assets	962	855
Other liabilities	(5 378)	(4 735)
Net variations in assets and liabilities related to operations		
Accounts receivable	(2 317)	(10 247)
Prepaid expenses	(25)	(19)
Accounts receivable from the Gouvernement du Québec for withdrawn projects under consideration	130	
Rents receivable	237	1 037
Accounts and contract holdbacks payable	(1 293)	(1 440)
Accrued interest	(12 268)	(11 817)
Amounts carried forward	13 612	(14 808)

CORPORATION D'HÉBERGEMENT DU QUÉBEC

STATEMENT OF CASH FLOW (cont'd)
for the year ending March 31, 2009
(in thousands of dollars)

	2009	2008 (Restated)
Amounts brought forward	13 612	(14 808)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from amounts receivable from the Gouvernement du Québec related to the long-term debt	40 040	9 876
Payments on accounts receivable from the Gouvernement du Québec related to the long-term debt	(3 322)	(3 807)
Receipts from loans	1 170 274	1 222 794
Payments on loans	(1 219 930)	(1 046 321)
Receipts from accounts receivable - institutional projects	296 193	326 460
Payments on accounts receivable – institutional projects	(242 339)	(219 177)
Acquisition of fixed capital assets	(71 614)	(59 857)
Product from disposal of fixed capital assets		18
Acquisition of building held for sale		(197)
Product from disposal of buildings held for sale	250	1 650
Receipts from projects under consideration	155	324
Payments on projects under consideration	(12 977)	(12 873)
Acquisition of other assets	(4 978)	(3 204)
	(48 248)	215 686
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term loans	33 721 719	14 389 983
Reimbursement of short-term loans	(33 628 582)	(14 580 339)
Long-term debt	68 298	239 985
Reimbursement of long-term debt	(134 121)	(273 473)
Net increase in other liabilities	5 614	7 518
	32 928	(216 326)
REDUCTION IN CASH AND CASH EQUIVALENTS	(1 708)	(15 448)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(3 070)	12 378
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 27)	(4 778)	(3 070)

The notes are an integral part of the financial statements.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars)

1. CONSTITUTION, MISSION AND OPERATIONS

The Corporation d'hébergement du Québec (the Corporation) is a legal person with shared capital constituted pursuant to the *Act respecting the Corporation d'hébergement du Québec* (R.S.Q., c. C-68.1).

The Corporation's mission is to offer for use by health and social service sector stakeholders, in exchange for consideration and with a view to self-funding, the technical and financial expertise and the funding required to manage, construct, maintain and acquire capital assets, equipment and health and social services infrastructures.

A further mission is to own and hire out, for consideration, property used or to be used by a health and social services institution, local development agency or regional council referred to in the *Act respecting health services and social services* (R.S.Q., chapter S-4.2) or the *Act respecting health services and social services for Cree Native persons* (R.S.Q., chapter S-5) or any other person, company or association appointed for that purpose by the Minister or by the Government.

2. PRINCIPAL ACCOUNTING POLICIES

To prepare its financial statements, the Corporation uses primarily the Manual of the Canadian Institute of Chartered Accountants (CICA) for the public sector. Any other generally accepted accounting principles used must be consistent with this Manual.

Under generally recognized Canadian accounting principles, the Corporation's management must use estimates and assumptions as a basis for the Corporation's financial statements. The estimates and assumptions have an impact on the recognition of assets and liabilities, on the presentation of contingent assets and liabilities on the date on which the financial statements are prepared and on the recognition of revenues and expenses during the period covered by the financial statements. Actual results may differ from the estimates. The main elements for which estimates were used are the life cycle of fixed assets, the fair value of properties purchased for minor or zero consideration, the costs incurred and the provision for sick leave and vacation time.

RENTAL INCOME

The Corporation reports rental income from the health network by entering a monthly provision calculated from estimated annual rents, approved by the Ministère de la Santé et des Services sociaux, at the beginning of the year. Rental income is adjusted at the end of the year to reflect actual rents. Any difference is entered as owing by or receivable from the Ministère de la Santé et des Services sociaux.

WORKS OF ART

The works of art included in construction project are original artistic products relating to a building's architecture, indoor and outdoor space, environment or site, plus the cost of incorporating the said works into the building. They are not entered as fixed capital assets, but their cost is entered as an expense for the year in which they are acquired.

FIXED CAPITAL ASSETS

Buildings Under Operation

The buildings purchased by the Corporation are entered at cost or at their fair value where the consideration is minor or zero. For sites acquired from organizations within the Government reporting entity, the surplus of the fair value over their cost is entered as contributed surplus, while in the case of sites acquired from third parties, the surplus is entered as income for the year in which they are acquired. The surplus of the fair value of buildings over their cost is entered as deferred contribution.

Buildings are depreciated over their useful life using the straight-line method of depreciation for depreciation periods ranging from 10 to 50 years.

The cost of land improvements and development, and the added costs of buildings under emphyteutic leases, are depreciated using the straight-line method of depreciation for a period equivalent to the lesser of their life cycle or the duration of the emphyteutic lease.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**FIXED CAPITAL ASSETS (cont'd)****Buildings Under Construction**

In addition to direct costs, the cost of buildings under construction includes a relevant fraction of the related general and administrative expenses, along with financing costs. Financing costs are capitalized for buildings under construction until they are transferred to buildings under operation.

Rented Furniture and Equipment

Rented furniture and equipment related to fixed capital assets is entered at cost. Depreciation is calculated over the estimated useful life of the item using the straight-line method over a ten-year period.

Conservation Work

Conservation expenses incurred for capital assets are amortized using the straight-line method over a 15-year period in cases where the projects are completed in their entirety. The amounts are invoiced to the lessees, and are recovered over the same 15-year period.

PROPERTIES HELD FOR SALE

Properties held for sale are valued at their depreciated cost. No depreciation is recorded for these properties from the time the Corporation decides to dispose of them.

PROJECTS UNDER CONSIDERATION

In addition to direct costs, projects under consideration include management and financing costs. These costs are accrued until the study cost is transferred to project construction and repair costs or reimbursed by the Ministère de la Santé et des Services sociaux in cases where the project is not implemented.

CAPITALIZED INTEREST

The portion of interest expenditure relating to buildings under construction is capitalized using the average weighted interest rate for temporary borrowings.

OTHER ASSETS**Issuing, Discount and Premium Expenses Relating to the Long-Term Debt**

Issuing, discount and premium expenses relating to the long-term debt are deferred and depreciated over the term of the debt using the straight-line method.

Software and Application Development

Software and application developments for four Québec Electronic Health Record projects, namely the Health Information Access Layer (HIAL), Télé-Santé, Consent Services and the Public Key Infrastructure (PKI) portion of HIAL (PKI-HAIL), which are owned by the Corporation, are entered at cost. In addition to direct costs, software and application developments include financing and management costs up to the time they are brought into operation. They will be depreciated from that date onwards.

Computer Equipment and Systems

Computer systems and equipment are entered at cost. Depreciation is calculated over a five-year period using the straight-line method.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

OTHER ASSETS (cont'd)

Computer Systems – Québec Electronic Health Record

The computer systems include technological infrastructures relating to the four Québec Electronic Health Record projects owned by the Corporation. They are entered at cost and will be depreciated from the time they are brought into operation.

Lands Transferred by Emphyteutic Lease

Lands transferred by emphyteutic lease are entered at cost, since the Corporation takes back possession at the end of the lease.

Furniture and Equipment

Items of furniture and equipment used for administration purposes are entered at cost. Depreciation is calculated over their estimated useful life using the straight-line method over a period of between five and ten years.

Workplace Development

Workplace development is depreciated using the straight-line method over a period of between 10 and 25 years.

LONG-TERM DEBT

Irregular coupon bonds are entered at their face value increased annually by capitalization of interest expenses at the interest rate in force, using the compound interest method.

OTHER LIABILITIES

Deferred Contributions

Deferred contributions are composed of the surplus of the fair value of buildings over their cost where the consideration is minor to zero, together with amounts received from organizations to finance building projects. They are gradually transferred to revenues using the depreciation method applicable to the buildings in question.

Where conditions are attached to contributions made by third parties for the acquisition of land, the contributions are entered as deferred contributions and are transferred to contributed surplus once the conditions have been met.

RENTS COLLECTED IN ADVANCE

Rents collected in advance are depreciated using the straight-line method over a 25-year period, i.e. the duration of the lease which expires in 2029 and 2030.

PENSION PLANS

Defined contribution plan accounting is applied to government multiemployer defined benefit plans because the Corporation has insufficient information to apply defined benefit plan accounting.

PROVISION FOR SICK LEAVE

The long-term obligations arising from sick leave accumulated by employees are estimated actuarially using a simplified method based on the most probable assumptions identified by the Government. These assumptions are reassessed annually. The resulting liabilities and expenses are entered according to the way in which these benefits are acquired by employees, i.e. according to their accumulation and use of sick leave.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)**CASH AND CASH EQUIVALENTS**

Under the Corporation's policy, cash and cash equivalents include cash and outstanding cheques minus cash.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses interest rate swaps as part of its policy to manage cash borrowings, short-term investments and their related financial risks. Interest rate swaps give rise to periodic interest payment swaps without exchange of the capital amounts on which the payments are based. These swaps are entered at cost. Profits and losses from the swap are entered in the statement of income as adjustments to the interest expenses.

3. CHANGES TO THE ACCOUNTING POLICIES

As of April 1, 2008, the Corporation bases its financial statements on the Manual of the Canadian Institute of Chartered Accountants (CICA) for the public sector. Previously, it used the CICA manual for the private sector. Given that this is the first time these new standards have been applied, the comparative financial statements have been restated.

The changes to the accounting policies are described below.

WORKS OF ART

Works of art included into construction projects are not entered as capital assets, but their cost is entered as an expense for the year in which they are acquired. Previously, the cost of works of art was capitalized to buildings under operation and depreciation over the depreciation period for the building in question, using the straight-line method.

FIXED CAPITAL ASSETS**Buildings Under Operation**

Lands purchased by the Corporation are entered at cost or at their fair value where the consideration is minor or zero. For lands acquired from organizations within the Government reporting entity, the surplus of the fair value over their cost is entered as contributed surplus, while in the case of lands acquired from third parties, the surplus is entered as income for the year in which they are acquired. Previously, any surplus of fair value over the cost of land was entered as contributed surplus regardless of whether or not the organisation was related.

OTHER ASSETS**Issuing, Discount and Premium Expenses Relating to the Long-Term Debt**

Issuing, discount and premium expenses relating to the long-term debt are deferred and depreciated over the term of the debt using the straight-line method, whereas previously they were deducted from the debt and depreciated using the effective interest rate method over the anticipated term of the debt.

Computer Development

The development of applications, software and computer systems are presented as Other Assets. Previously, computer development was entered under Intangible Assets. Depreciation methods and terms remain unchanged.

FINANCIAL INSTRUMENTS

Current CICA accounting policies for the public sector do not stipulate specific standards for financial instruments. The information presented previously has therefore been removed.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

3. CHANGES TO ACCOUNTING POLICIES (cont'd)
DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses interest rate swaps. These swaps are entered at cost, and profits and losses from the swap are entered as adjustments to interest expenses. Previously, the Corporation used hedge accounting to present the swaps, which were entered at their fair value in the balance sheet, as assets or liabilities related to derivative financial instruments. Profits and losses from the swap resulting from adjustments to the fair value of the swap were entered in the statement of income as adjustments to the interest expenses on the hedged borrowing instrument. The book value of the hedged element was adjusted to reflect variations in the fair value caused by the hedged risk. Gains or losses resulting from adjustments to the fair value of the hedged element were entered in the statement of income.

IMPACT OF THE CHANGES

These changes have had an impact on the Corporation's net profit and retained earnings.

Retroactive application of these changes has increased (reduced) the following items in the financial statements.

	<u>2008</u>
Accounts receivable	(14)
Fixed capital assets	(6 633)
Other assets	23 444
Intangible assets	(13 513)
Short-term loans	(965)
Long-term debt	12 946
Contributed surplus	(2 366)
Retained earnings – opening balance	(8 325)
Net profit	1 994

4. RENTAL INCOME – HEALTH NETWORK

Rental income is derived from 15-year leases signed on or after April 1, 2000, with hospitals, local community service centres (CLSCs), long-term residential care centres (CHSLDs) and other health network institutions occupying the Corporation's buildings. It is established annually on the basis of the Corporation's pricing policy.

5. RENTAL INCOME – OTHERS – NET

	<u>2009</u>	<u>2008</u>
Rental income	<u>4 567</u>	<u>4 130</u>
Expenses		
Operating costs	2 064	1 654
Interest	283	472
Conservation work	480	769
Depreciation of buildings	782	743
Depreciation of workplace developments	<u>94</u>	<u>94</u>
	<u>3 703</u>	<u>3 732</u>
	<u>864</u>	<u>398</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

6. SUBSIDY FROM THE GOVERNMENT OF CANADA

Under section 95 of the *National Housing Act* (R.S.C., c. N-11), the Corporation qualifies for a contribution from the Government of Canada to enable it to bear the cost of financing housing projects. In all, 23 properties qualified for the subsidy.

7. FINANCIAL COSTS – NET

	2009	2008
Interest on the long-term debt		
Bonds	15 819	19 384
Notes	91 871	96 989
Other debts	2 390	2 501
Amortization of discounts, premiums and issuing expenses for long-term debt	520	502
Other financial costs	(76)	(3 391)
	110 524	115 985
Minus:		
Interest income from a sinking fund for the buildings of the Corporation managed by the Ministère des Finances	1 078	1 614
	109 446	114 371
Interest on short-term loans		
Interest	61 827	113 754
Minus:		
Interest charged to buildings under construction owned by the Corporation, projects under consideration and other assets	4 109	6 766
Interest income	6	5
	57 712	106 983
	167 158	221 354

Interest on loans from related enterprises under joint control amounted to \$94.3 M (2008: \$100.7 M) in the case of long-term loans and \$42.0 M (2008: \$48.3 M) in the case of short-term loans.

8. DEPRECIATION

	2009	2008
Fixed capital assets		
Buildings under operation	54 667	52 800
Rented furniture and equipment	3 835	3 923
Conservation work	2 080	1 804
	60 582	58 527

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	11 455	10 249
Cost of premises occupied by the Corporation	571	633
Professional services	370	396
Mail, courier services, communications and marketing	262	221
Information systems	266	309
Administrative and office expenses	278	261
Other expenses	537	659
Depreciation of furniture and equipment, computer systems and computer hardware	347	259
	<u>14 086</u>	<u>12 987</u>
Minus:		
Management costs and direct costs capitalized to fixed capital assets, receivables-institution projects and projects under consideration	1 513	1 165
Direct costs charged to consulting expenses and network building information system	1 364	1 179
	<u>11 209</u>	<u>10 643</u>

10. ACCOUNTS RECEIVABLE

	2009	2008
Amount receivable from the Gouvernement du Québec	25 269	23 237
Health and social services agencies	20 659	19 041
Health network institutions	892	4 250
Interest receivable on derivative financial instruments	2	675
Other	391	388
	<u>47 213</u>	<u>47 591</u>

On October 24, 2007, the Ministère de la Santé et des Services sociaux stipulated that the assets of the Enterprise Master Patient Index (EMPI) would be transferred to the Corporation only when the work is complete. As at March 31, 2009, accounts receivable from health and social services agencies include an amount of \$19.7 million in EMPI costs (2008: \$17.9 million).

11. RENTS RECEIVABLE

On March 31, 2000, the Corporation recorded a subsidy receivable from the Ministère de la Santé et des Services sociaux for interest incurred but not due on the long-term loans shown in its financial statements. Because the Corporation no longer receives subsidies from the Ministère de la Santé et des Services sociaux, this amount, with the consent of the Ministère, has been converted into "rents receivable". Rents receivable will be reimbursed to the Corporation by the institutions concerned, without interest, in accordance with a predetermined payment schedule terminating in 2033.

Amounts receivable in the next five years are as follows:

2010	245
2011	220
2012	230
2013	240
2014	251

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

12. AMOUNTS RECEIVABLE FROM THE GOUVERNEMENT DU QUÉBEC RELATED TO THE LONG-TERM DEBT

Under its constituting Act, the Corporation deposits amounts into the Sinking Fund for loans to health and social services organizations in Québec, managed by the Ministère des Finances. The amounts in question are used to reimburse a portion of its bonded debts. They generated a yield of 4.6% (2008: 4.6%).

The amounts of the capital payments (withdrawals) for the next five years are as follows:

2010	1 320
2011	1 320
2012	1 320
2013	(6 040)
2014	1 000

13. LOANS

	2009	2008
Health and social services agencies ^(*)	823 268	820 466
Health network institutions ^(**)	1 110 783	1 024 489
Early childhood centres ^(***)	24	4 762
Others	1 058	1 416
	<u>1 935 133</u>	<u>1 851 133</u>

* These loans include an amount of \$337.2 M (2008: \$351.8 M) relating to loan agreements covering the period up to 2023, in consideration of which long-term financing has been granted. Instalments on the loans are payable on September 30 and March 31 of each year and are guaranteed by chattel mortgage. The amounts received correspond to the payments due in capital and interest on the long-term loan, with interest rates varying in 2008 and 2009 between 5.5% and 10.5% for terms ending between 2010 and 2023. The loans also include a short-term amount of \$486.1 M (2008: \$468.7 M) comprising lines of credit currently bearing interest at the one-month bank acceptance rate plus 0.30%.

** These loans include an amount of \$1 067.7 M (2008: \$989.4 M) composed of lines of credit currently bearing interest at the bank acceptance rate plus 0.30%. These loans also include an amount of \$43.1 M (2008: \$35.1 M) covered by long-term loan agreements ending between 2010 and 2029 and bearing interest at the one-month bank acceptance rate plus 0.30%.

*** These loans are short-term and currently bear interest at the preferential rate less 0.5%.

14. RECEIVABLES – INSTITUTIONAL PROJECTS

Receivables – institutional projects include all direct costs plus management fees and interest, calculated at the one-month bank acceptance rate plus 0.30% for building projects entrusted to the Corporation by the health network. Receivables are reimbursed when the project is completed, through collection of the financing monies obtained by the institution concerned.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

15. FIXED CAPITAL ASSETS

	2009		2008
	Cost	Accumulated Depreciation	Net Value
Buildings under operation			
Land	100 790		100 790
Buildings	2 079 007	437 340	1 641 667
	2 179 797	437 340	1 742 457
Buildings under construction			
Land	77 149		77 149
Buildings	136 728		136 728
	213 877		213 877
Rented furniture and equipment	43 898	34 361	9 537
Conservation work	29 402	10 942	18 460
	2 466 974	482 643	1 984 331

Costs Capitalized to Buildings Under Operation, Buildings Under Construction and Rented Furniture and Equipment

During the year, the following costs were capitalized to fixed capital assets:

	2009	2008
Interest on short-term borrowings	3 197	5 256
General and administrative expenses	998	894

16. OTHER ASSETS

	2009		2008
	Cost	Accumulated Depreciation	Net Value
Discounts, premiums and issuing expenses related to the long-term debt	13 644	2 806	10 838
Application and software development *	20 225		20 225
Computer equipment and systems	1 747	1 047	700
Computer equipment – Québec Electronic Health Record *	1 616		1 616
Lands transferred by emphyteutic lease	1 486		1 486
Furniture and equipment	1 327	897	430
Workplace development	2 094	568	1 526
Internal work	262		262
	42 401	5 318	37 083

* On March 31, 2008, the Conseil du trésor, in CT 206189, authorized a new structure and division of projects, as well as a new financial structure, for the Québec Electronic Health Record, with an authorized loan amount of \$130.9 million. As a result, the Corporation now owns four projects. In addition, pursuant to the instructions of the Ministère de la Santé et des Services sociaux, the Corporation will not obtain ownership of the Enterprise Master Patient Index (EMPI) project assets until all work has been completed.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

16. OTHER ASSETS (cont'd)**Expenses Capitalized to Application and Software Development and Computer Equipment – Québec Electronic Health Record**

During the year, interest on the short-term loan amounting to \$0.2 M (2008: \$0.2 M) was capitalized to these assets.

17. ACCOUNTS AND CONTRACT HOLDBACKS PAYABLE

	2009	2008
Amount owing to the Gouvernement du Québec	5 693	520
Health and social services agencies	1 238	3 417
Health network institutions	1 855	1 600
Others	41 305	34 544
	<u>50 091</u>	<u>40 081</u>

18. ACCRUED INTEREST

	2009	2008
Related organizations – entities under joint control	31 081	39 748
Others	636	4 237
	<u>31 717</u>	<u>43 985</u>

19. SHORT-TERM LOANS

	2009	2008
Discount notes		
Financial institutions, 0.98%	19 967	618 878
Consolidated Fund of the Province of Québec, 0.55% to 1.16%	880 613	198 253
Sinking Fund of the Province of Québec, 1.06%	24 956	69 835
Financement Québec, 0.70% to 0.72%	275 308	797 247
Others, 0.70% to 1.06%	320 153	197 312
Société de financement des infrastructures locales, 0.63% to 0.72%	263 506	144 742
Trust – Plan of Action on Climate Change 0.70% to 0.74%	188 436	
QLK Dam Fund		3 622
Waste Fee Fund		17 038
Notes at par		
Fonds de financement du Gouvernement du Québec, 0.71% to 1.14%	223 489	
Sinking Fund of the Province of Québec		12 852
Consolidated Fund of the Province of Québec		43 511
	<u>2 196 428</u>	<u>2 103 290</u>

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

20. LONG-TERM DEBT

	2009	2008
Bonds:		
– 11% due in 2019	10 000	60 050
– No payments of interest for periods of 15 to 19 years and bearing interest for the remainder at rates of 68% to 156% (effective rate of 10.46% to 10.51%), due between 2013 and 2015, including capitalized interest	125 264	118 576
Borrowing on notes from the Fonds de financement du Gouvernement du Québec at rates varying from:		
– 3.63% to 6.52%, due from 2010 to 2039	1 341 504	1 333 579
– 6.77% to 6.79%, due in 2023	156 311	166 080
– 9.38%, due in 2018 and 2021	23 288	25 304
– Canadian three-month bank acceptance rate minus nominal yield variance of 0.0355%, due in 2039	116 400	116 400
Borrowings on notes from Financement-Québec at the following rates:		
– 6.40%, due in 2016	371	601
– 8.32%, due in 2019	411	452
– 9.38%, due in 2018	377	419
Mortgages from Immobilière SHQ guaranteed by buildings with a book value of \$122.9 M at rates varying from:		
– 6.88%, due in 2020 to 2023	11 774	12 976
– 7.5% and 7.88%, due from 2021 to 2029	4 266	4 408
– 8%, due from 2028 to 2030	13 966	15 105
	<u>1 803 932</u>	<u>1 853 950</u>

The capital payments to be made in the next five financial years are as follows:

	Financement- Québec *	Fonds de financement du gouvernement du Québec *	Immobilière SHQ *	Other unrelated organizations	Total Payments
2010	129	169 212	1 074	4 490	174 905
2011	129	124 598	1 154	17 449	143 330
2012	129	65 945	1 240	19 280	86 594
2013	129	65 545	1 332	22 203	89 209
2014	129	73 345	1 431	18 646	93 551

Chattel mortgage in favour of the Corporation apply to ministerial subsidies paid to health sector stakeholders. The mortgages may in future be transferred to unrelated creditors of the Corporation to guarantee their loans.

* Entities under joint control

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

21. OTHER LIABILITIES

	2009		2008
	Cost	Accumulated Depreciation	Net Value
Deferred contributions	195 367	25 033	170 334
Rents collected in advance	1 247	145	1 102
	<u>196 614</u>	<u>25 178</u>	<u>171 436</u>
			<u>174 328</u>

During the year, contributions from related (\$1.7 M) (2008: \$3.0 M) and non-related (\$0.2 M) (2008: \$3.8 M) organizations to fund construction projects amounted to \$1.9 M (2008: \$6.8 M).

22. CAPITAL STOCK

	2009	2008
The shares of the Corporation d'hébergement du Québec are held by the Ministère des Finances.		
Authorized		
5 000 000 ordinary shares with a par value of \$100 each		
Issued and paid up:		
100 000 shares	<u>10 000</u>	<u>10 000</u>

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, most of the Corporation's revenues and expenses derive from transactions with the health and social services agencies, health and social services network institutions and organizations and the Ministère de la Santé et des Services sociaux. These transactions are posted at their exchange value.

In addition, buildings acquired from related parties for minor or zero consideration measured at fair value total \$0.1 M (2008: \$5.9 M), with consideration equivalent to the deferred contributions or contributed surplus and thus entered at a net minor or zero book value.

The Corporation is also related to all government departments and special funds and to all organizations and undertakings controlled directly or indirectly by the Gouvernement du Québec, or subject either to joint control or to a significant joint influence by the Gouvernement du Québec. The Corporation has not entered into any commercial transactions with these related parties, other than in the normal course of its activities and on the usual commercial conditions. These transactions are posted at their exchange value and are not disclosed separately in the financial statements.

24. INTEREST RATE AND CREDIT RISK

Most of the long-term debt is at a fixed rate of interest, which minimizes the risk relating to cash flow and interest rate variations. In addition, exposure to risk relating to long-term debt interest rates is limited by the fact that all interest expenses are re-invoiced to the health network through rental leases and loan agreements. The Corporation is exposed mainly to risk associated with variations in interest rates on its short-term loans. It has entered into a number of interest rate swaps as a means of managing the interest rate risk of the related debt.

The credit risk is also limited because the Ministère de la Santé et des Services sociaux, in its expense budget, recognizes the financial commitments that health institutions have made in respect of these leases and loans.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

25. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

CONTRACTUAL OBLIGATIONS

As at March 31, 2009, the uncompleted balance of contracts signed by the Corporation involving contractual obligations totalled \$79.1 M (2008: \$96.9 M), including \$34.3 M (2008: \$37.2 M) for current projects, \$24.9 M (2008: \$35.6 M) for projects under consideration and \$17.5 M (2008: \$21.7 M) for the Québec Electronic Health Record projects of which the Corporation is the owner.

CREDIT INSTRUMENTS

The credit instruments used to meet the financing needs of the Corporation's clients represent the maximum amount of additional credit that the Corporation could be required to grant if all its commitments were used in their entirety.

The total amount of the credit instruments does not necessarily represent the need for future liquidities since the instruments may expire or be cancelled without any disbursement of funds. The table below shows the unused contractual amounts.

	2009	2008
Loans		
Health and social services agencies	416 214	396 658
Health network institutions	11 622	11 376
	<u>427 836</u>	<u>408 034</u>

CONTINGENCIES

Insurance Claim

A claim for \$35 M was submitted to the insurers for the fire at the Hôtel-Dieu de Roberval in December 1998. Of this total, the insurer had paid an amount of \$8.8 M as at March 31, 2009. At the time these financial statements were prepared, the Corporation was unable to estimate the amount of any additional payment that may result from the claim. The surplus of costs over the insurer's contribution will be paid by the Ministère de la Santé et des Services sociaux.

Financing of deductibles on the civil and professional liability policies of institutions participating in the insurance program offered by the Association québécoise d'établissements de santé et des services sociaux

Under section 472.1 of the *Act respecting health services and social services* (R.S.Q., chapter S-4.2), the Corporation may be called upon to guarantee the execution of an obligation incumbent upon an Association recognized by the Minister pursuant to section 267 of the said Act concerning the management of a deductible relating to an insurance contract negotiated and entered into by that Association for the benefit of its members. It may also advance to the Association any sum considered necessary for the management of the deductible.

The Minister may, on the conditions established by the Government, reimburse any amounts that the Corporation is called upon to pay as part of the above guarantee.

Legal Proceedings and Claims

Claims and legal proceedings against the Corporation, in the amount of \$42.4 M, were in progress at the time these financial statements were prepared. Based on the available information, however, management believes it is highly unlikely that these claims and legal proceedings will result in any liability of significance to the Corporation's financial situation.

Where applicable, any payments by the Corporation will be either entered into the year's expenses, capitalized to properties depending on the type of the claim, or deducted from the existing provisions.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

26. FUTURE EMPLOYEE BENEFITS**PENSION PLANS**

The personnel of the Corporation participate in the Government and Public Employees Retirement Plan (RREGOP), or in the Civil Service Superannuation Plan (RRF), or in the Managerial Personnel Retirement Plan (RRPE) or in the Senior Administration Pension Plan (RRAS), administered by an agency of the Gouvernement du Québec. These multi-employer pension plans are defined benefit plans and include guarantees upon retirement and upon death.

For 2008-2009, the Corporation's RREGOP contribution rate remained at 8.19% of payroll, and its RRF and RRPE contribution rate remained stable at 10.54%.

The Corporation's obligations under these government plans are limited to its employer's contributions. The contributions of the Corporation charged against its revenues for the year amounted to \$0.6 M (2008: \$0.5 M).

PROVISION FOR SICK LEAVE AND VACATIONS

During the year, the Corporation changed how it estimates the provisions for accumulated sick leave. From now onwards, the provision is estimated using an actuarial method that considers the distribution of constituted benefits. As a result of the change, the value of the provision as at March 31, 2009, was reduced by \$0.2 M, and the impact of the change has been entered in the results for the year.

	2009			2008
	Vacation	Sick leave	Total	Total
Opening balance	902	1 099	2 001	1 946
Amounts transferred *				49
Yearly charge	868	189	1 057	1 147
Subtotal	1 770	1 288	3 058	3 142
Minus:				
Benefits paid during the year	788	491	1 279	1 141
Closing balance	982	797	1 779	2 001

* The amounts transferred are for vacation and sick leave payable or cancelled following the transfer of employees between the Gouvernement du Québec and the Corporation. These amounts are presented under the "Other expenses" item of administrative and general expenses.

The balance of the provision is included in the "Accounts and contract holdbacks payable" item.

Provision for sick leave

The Corporation has a program that allows its employees to accumulate sick leave. This program generates long-term obligations, the cost of which is shouldered entirely by the Corporation.

The sick leave accumulation program allows employees to accumulate sick leave days not used during the year, and to be paid 50% of the value of those days in the case of separation, retirement or death, up to a maximum amount equivalent to 66 days. In the case of pre-retirement, employees may also elect to use the accumulated leave as fully-remunerated leave of absence. Currently, there is no capitalization to provide for payments under the program.

The Corporation's obligations under the sick leave accumulation program increase as employees provide services to the Corporation. The value of the obligation is calculated using a method that distributes the cost of the program over the duration of the active career of the employees.

CORPORATION D'HÉBERGEMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

26. FUTURE FRINGE BENEFITS (cont'd)**PROVISION FOR SICK LEAVE AND VACATIONS (cont'd)****Provision for sick leave (cont'd)**

The long-term economic assumptions used to calculate the actuarial value of the provision, based on the various pension plans, are as follows:

	<u>RREGOP</u>	<u>RRPE</u>
Average retirement age	59	58
Annual promotion (%)	0.6	1.1
Total adjustment factor (%)	118.85	121.6
Fringe benefits (%)	125.1	128.0
Separation and death (%)	95.0	95.0
Capitalization rate (%)	5.61 and 5.64	4.08
Salary increases (%)	3.25	3

Provision for vacation leave

A capitalization calculation to provide for vacation leave is not currently considered necessary, since the Corporation feels that accumulated vacation leave will be taken in the following year.

27. CASH FLOWS

The cash and cash equivalents shown in the cash flow statement include the following amounts:

	<u>2009</u>	<u>2008</u>
Outstanding cheques less cash	<u>(4 778)</u>	<u>(3 070)</u>

The Corporation paid \$174.4 M (2008: \$232.3 M) in interest during the year and received interest payments of \$63.1 M (2008: \$76.1 M).

In addition, during the year, properties were acquired at a total cost of \$82.2 M (2008: \$80.3 M), including an amount of \$71.6 M (2008: \$59.8 M) disbursed during the year. An amount of \$18.2 M (2008: \$18.6 M) was disbursed during the year for acquisitions from the previous year. In addition, out of the total amount of property acquisitions, \$0.1 M (2008: \$20.9 M) were acquired by posting the amount by which the fair value of the goods acquired exceeded their cost where the consideration was minor or zero.

28. COMPARATIVE FIGURES

Some figures from 2008 have been reclassified in order to comply with the form of presentation used in 2009.

CORPORATION D'HÉBERGEMENT DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Corporation d'hébergement du Québec were drawn up by the Corporation's management, which is responsible for all aspects of preparation and presentation, including the estimates and principal opinions. Management's responsibility extends to the selection of appropriate accounting principles that are generally accepted in Canada. The financial information contained in the remainder of the annual report of activities is consistent with the information presented in the financial statements.

To carry out its responsibility, the Corporation's management maintains a system of internal accounting controls designed to offer a reasonable guarantee that the assets of the Corporation have been adequately protected, and that financial operations have been correctly recorded at the appropriate time, duly approved and used as a basis for the preparation of reliable financial statements.

The Corporation acknowledges that it is responsible for managing its affairs in accordance with the legislation and regulations governing it.

The board of directors oversees the way in which management fulfills its responsibilities in respect of the financial information, and has approved the financial statements. It is assisted by the auditing committee, whose members are not part of the management team. The committee meets with management and the auditor, examines the financial statements and recommends that the board approve them.

The Auditor General of Québec has audited the financial statements of the Corporation in accordance with Canadian generally accepted auditing principles. The Auditor's Report describes the nature and scope of the audit and sets out the auditor's opinion. The Auditor General has full and free access to the auditing committee to discuss elements relevant to the audit.

Michel Gagnon
Chief Executive Officer

Québec City, June 3, 2009

AUDITOR'S REPORT

To the Minister of Finance of Québec

I have audited the balance sheet of the Corporation d'hébergement du Québec as at March 31, 2009, along with the statements of income, retained earnings, contributed surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements, based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 any significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, and given the change in the accounting principles resulting from the adoption of accounting standards for the public sector, as explained in Note 3, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor Genral of Québec,
Renaud Lachance, CA, Auditor

Québec City, June 3, 2009

CORPORATION D'URGENCES-SANTÉ
(R.S.Q., c. S-5)

STATEMENT OF OPERATIONS
for the year ended March 31

	2009	2008 (Adjusted Note 3)
REVENUES		
Ministère de la Santé et des Services sociaux subsidies – operating subsidy	\$62 123 328	\$61 353 345
Ambulance services (Note 4)	27 940 711	27 595 446
Net income from external training activities (Note 5)	121 651	83 759
Miscellaneous (Note 6)	377 572	1 656 224
	<u>90 563 262</u>	<u>90 688 774</u>
EXPENSES (Note 7)	<u>90 031 223</u>	<u>90 631 483</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$532 039</u></u>	<u><u>\$57 291</u></u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31

	2009	2008 (Adjusted Note 3)
OPENING CUMULATED SURPLUS		
Previously established balance	\$26 185	\$1 688 836
Adjustment		
Recognition of inventories and prepaid expenses (Note 3)	1 010 929	979 823
Adjusted balance	<u>1 037 114</u>	<u>2 668 659</u>
Recovery of cumulated surplus by Ministère de la Santé et des Services	<u>1 037 114</u>	<u>(1 688 836)</u> 979 823
Excess of revenues over expenses	<u>532 039</u>	<u>57 291</u>
CLOSING CUMULATED SURPLUS	<u><u>\$1 569 153</u></u>	<u><u>\$1 037 114</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCE-SANTÉ**BALANCE SHEET**
as at March 31

	<u>2009</u>	<u>2008</u> (Adjusted Note 3)
ASSETS		
Current assets		
Cash on hand	\$5 203 450	\$6 162 629
Accounts receivable (Note 9)	6 654 543	7 415 465
Inventory (Note 10)	687 635	765 140
Prepaid expenses (Note 11)	420 420	263 552
Amount receivable from the Provincial Fund for the management of ambulance technicians' individual protective clothing, bearing interest at the prime rate less 1.95%, no terms of repayment		363 045
	<u>12 966 048</u>	<u>14 969 831</u>
Capital assets (Note 13)	<u>15 839 201</u>	<u>16 051 084</u>
	<u><u>\$28 805 249</u></u>	<u><u>\$31 020 915</u></u>
LIABILITIES		
Current liabilities		
Amount payable to the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing, bearing interest at the prime rate less 1.95%, no terms of repayment	\$579 466	\$363 520
Accounts payable and accrued liabilities (Note 15)	20 435 350	22 123 732
Instalments on commitments under capital leases (Note 16)	1 971 271	1 797 906
	<u>22 986 087</u>	<u>24 285 158</u>
Commitments under capital leases (Note 16)	<u>4 250 009</u>	<u>5 698 643</u>
	27 236 096	29 983 801
CUMULATED SURPLUS	<u>1 569 153</u>	<u>1 037 114</u>
	<u><u>\$28 805 249</u></u>	<u><u>\$31 020 915</u></u>
COMMITMENTS (Note 19)		
CONTINGENCY (Note 20)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Carole Deschambault, Member, Auditing Committee
Pierre Deschamps, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉSTATEMENT OF CASH FLOWS
for the year ended March 31

	2009	2008 (Adjusted Note 3)
CASH FLOWS RELATED TO		
OPERATING ACTIVITIES (Note 21)		
Excess of revenues over expenses	\$532 039	\$57 291
Non-cash items charged to operations:		
Recovery of cumulated surplus by Ministère de la Santé et des Services sociaux		(1 688 836)
Amortization of capital assets	4 169 318	4 031 340
Depreciation of capital assets	230 769	381 598
Loss (gain) on sale of capital assets	69 031	(318 944)
	<u>5 001 157</u>	<u>2 462 449</u>
Changes in assets and liabilities related to operations		
Current assets, (increase) decrease		
Accounts receivable	760 922	(1 416 253)
Inventory	77 505	11 971
Prepaid expenses	(156 868)	(16 723)
Amount receivable from the Provincial Fund for the management of ambulance technicians' individual protective clothing	363 045	(363 045)
Current liabilities, increase (decrease)		
Amount payable to the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing	215 946	(1 863 640)
Accounts payable and accrued liabilities	(3 414 543)	3 291 965
Deferred subsidies		(110 000)
	<u>(2 153 993)</u>	<u>(465 725)</u>
	<u>2 847 164</u>	<u>1 996 724</u>
FINANCING ACTIVITIES		
Repayment of debt for capital lease contracts	<u>(2 088 262)</u>	<u>(1 862 699)</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(1 734 241)	(720 329)
Proceeds from sale of capital assets	16 160	1 347 492
	<u>(1 718 081)</u>	<u>627 163</u>
(DECREASE) INCREASE IN CASH ON HAND	(959 179)	761 188
OPENING CASH ON HAND	<u>6 162 629</u>	<u>5 401 441</u>
CLOSING CASH ON HAND	<u><u>\$5 203 450</u></u>	<u><u>\$6 162 629</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

CHANGES IN FUND BALANCE
for the year ended March 31

	2009	2008
OPENING BALANCE	<u>\$787 935</u>	<u>\$231 182</u>
Increase		
Ministère de la Santé et des Services sociaux subsidy	789 725	1 709 646
Interest	16 767	10 451
Recovery of taxes		<u>2 450</u>
	<u>806 492</u>	<u>1 722 547</u>
Decrease		
Contribution to the secondary RCR program		50 000
Professional fees	200 092	40 930
Call prioritization system	495 594	291 582
Uniforms and individual protective clothing being tested		160
Travelling expenses	4 395	
Purchase of crests		13 960
Training		20 000
Contribution to conferences	10 500	22 500
Publications		5 244
Printing costs	35 224	8 264
Contribution to the Provincial Fund for the management of ambulance technicians' individual protective clothing	<u>546 332</u>	<u>713 154</u>
	<u>1 292 137</u>	<u>1 165 794</u>
CLOSING BALANCE	<u><u>\$302 290</u></u>	<u><u>\$787 935</u></u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL ACTIVITIES FUND

BALANCE SHEET
as at March 31

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Amount receivable from the Ministère de la Santé et des Services sociaux		\$1 060 818
Amount receivable from the Corporation, bearing interest at the prime rate less 1.95%, no terms of repayment	<u>\$340 985</u>	<u>363 520</u>
	<u><u>\$340 985</u></u>	<u><u>\$1 424 338</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$27	\$83 249
Amount payable to the Provincial Fund for the management of ambulance technicians' individual protective clothing, interest-free, no terms of repayment	<u>38 668</u> <u>38 695</u>	<u>553 154</u> <u>636 403</u>
FUND BALANCE	<u>302 290</u>	<u>787 935</u>
	<u><u>\$340 985</u></u>	<u><u>\$1 424 338</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Carole Deschambault, Member, Auditing Committee
Pierre Deschamps, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉ

PROVINCIAL FUND FOR THE MANAGEMENT OF AMBULANCE TECHNICIANS'
 INDIVIDUAL PROTECTIVE CLOTHING
 CHANGES IN FUND BALANCE
 for the year ended March 31

	<u>2009</u>	<u>2008</u>
OPENING BALANCE		\$719 321
Increase		
Ministère de la Santé et des Services sociaux subsidy	\$679 806	657 821
Contribution of health and social services agencies		5 728
Provincial Activities Fund contribution	546 332	713 154
Interest		16 245
Recovery of taxes		52 866
	<u>1 226 138</u>	<u>1 445 814</u>
Decrease		
Purchase of individual protective clothing	987 482	1 977 651
Measurement-taking	45 678	31 629
Maintenance and repair of individual protective clothing	129 557	102 433
Electronic data processing	52 335	52 937
Insurance VIP	10 355	
Interest	691	
Meeting costs	40	162
Crests (labels)		323
	<u>1 226 138</u>	<u>2 165 135</u>
CLOSING BALANCE	<u> </u>	<u> </u>

The notes are an integral part of these financial statements.

CORPORATION D'URGENTES-SANTÉ

PROVINCIAL FUND FOR THE MANAGEMENT OF AMBULANCE TECHNICIANS'
 INDIVIDUAL PROTECTIVE CLOTHING
 BALANCE SHEET
 as at March 31

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Amount receivable from the Corporation, bearing interest at the prime rate less 1.95%, no terms of repayment	\$238 481	
Amount receivable from the Provincial Activities Fund, interest-free, no terms of repayment	<u>38 668</u>	<u>\$553 154</u>
	<u><u>\$277 149</u></u>	<u><u>\$553 154</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$277 149	\$190 109
Amount owing to the Corporation, bearing interest at the prime rate less 1.95%, no terms of repayment	<u>277 149</u>	<u>363 045</u> <u>553 154</u>
FUND BALANCE		
	<u><u>\$277 149</u></u>	<u><u>\$553 154</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Carole Deschambault, Member, Auditing Committee
 Pierre Deschamps, Member, Auditing Committee

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS
March 31, 2009**1. CONSTITUTION AND PURPOSE**

The Corporation d'urgences-santé (Corporation) is a non-profit corporation established under the *Act respecting health services and social services* (R.S.Q., c. S-5). On its territory, it performs the duties attributed to a regional board by the *Act respecting pre-hospital emergency services* (S.Q. 2002 c. 69), notably planning, organizing and coordinating the organization of pre-hospital emergency services, including the implementation of a front-line service. It also operates a health communications centre and an ambulance service.

Provincial Activities Fund

As Provincial Activities Fund trustee, the Corporation must, at the Minister's request, pay for specific expenses related to all pre-hospital emergency services.

Provincial Fund for the Management of Ambulance Technicians' Individual Protective Clothing

A memorandum of agreement involving a trust estate for the management of ambulance/paramedic technicians' protective clothing was signed between the Ministère de la Santé et des Services sociaux, ambulance company associations and the Corporation. The Corporation is mandated to act as a trustee of the fund for the purchase, management and maintenance of individual protective clothing.

The operations of these Funds are recorded separately from those of the Corporation.

2. ACCOUNTING POLICIES**Use of estimates**

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Financial statements items requiring greater use of estimates include: accounts receivable, estimated service life of assets for amortization calculation and financial instrument measurement purposes. Real results may differ from these estimates.

Subsidy income reporting

Operating subsidies are recorded as proceeds when it is received or receivable if it is relatively certain that it will be received.

Revenue reporting

Revenue from ambulance transportation is posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The services have been rendered;
- The selling price is or can be determined;
- Recovery is reasonably certain.

Financial instruments*Financial assets held for transaction purposes*

Cash is classified as a financial asset held for transaction purposes and measured at fair value. Variations in fair value are posted to operations.

CORPORATION D'URGENTES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**2. ACCOUNTING POLICIES (cont'd)****Financial instruments (cont'd)***Loans and accounts receivable*

Accounts receivable, loans and advance to other Funds are classified as loans and accounts receivable and reported at the cost which, when initially recorded, corresponds to its fair value. Subsequent measurements of accounts receivable are posted at cost after amortization, which generally corresponds to the amount initially recorded minus any provision for doubtful debts. Subsequent measurements of loans and advances to other Funds are posted at cost after amortization using the effective interest rate method.

Other liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and initially measured at their fair value. Subsequent measurements are posted at cost after amortization using the effective interest rate method.

Obligations under capital lease contracts are classified as other financial liabilities and measured at cost after amortization, which corresponds to the amount initially recorded plus any cumulated amortization of funding costs. The amount initially posted corresponds to the debt capital minus the funding costs applicable.

Inventory

Inventories are evaluated at cost (calculated using the average cost method) or net realization value, whichever is lower.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method over the following estimated service lives:

Computer equipment	3 to 5 years
Furniture and equipment	5 to 10 years
Leasehold improvements	Duration of lease (5 years)
Automotive equipment	3 to 5 years
Computer-aided dispatch system	5 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Corporation lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. ACCOUNTING POLICIES**a) Adjustment – Recognition of inventories and prepaid expenses**

Last fiscal year's financial statements were corrected to recognize inventories and all prepaid expenses. This correction increases the following financial statement items.

	<u>2008</u>
Excess revenues over expenses	\$31 106
Inventory	765 140
Prepaid expenses	245 789
Cumulated surplus	1 010 929

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**3. ACCOUNTING POLICIES (cont'd)****b) Adoption of new accounting standards**

On April 1, 2008, in keeping with the transitional provisions applicable, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accounts (CICA) Handbook's Section 3031, "Inventories", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation".

Inventories

Section 3031, "Inventories", gives guidance on cost determination and subsequent recognition in expenses, including depreciation up to net realization value. It also comments on cost determination methods used to assign cost to inventories. It requires inventories to be assessed at the lower of cost or net realization value, prohibits use of the last-in, first-out (LIFO) method and requires elimination of circumstances previously justifying inventory being depreciated to less-than-cost value, demanding reassessment of the amount of depreciation. The new standard also requires additional disclosures.

Capital management

Section 1535 defines the standards for disclosing information on an entity's capital and how it is managed. This additional information includes qualitative and quantitative information on the objectives, policies and processes used by the entity to manage its capital and the entity's compliance with requirements related to capital to which it is subject under outside rules.

Financial instruments

Section 3862 describes disclosures of the significance of financial instruments for an entity's financial position and performance, and the nature and extent of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. Section 3863 defines the standards for presenting financial instruments and non-financial derivatives. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". The results of the implementation of these new standards are reported in Note 12 and have not affected the Corporation's financial performance or financial position.

4. REVENUE - AMBULANCE SERVICES

	2009	2008
Health and social services institutions	\$15 675 186	\$15 120 398
Société de l'assurance automobile du Québec	825 211	875 987
Ministère de l'Emploi et de la Solidarité sociale	4 144 142	4 197 235
Individuals	6 934 554	6 918 754
Other	361 618	483 072
	<u>\$27 940 711</u>	<u>\$27 595 446</u>

CORPORATION D'URGENCE-SANTÉ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. REVENUES – NET INCOME FROM EXTERNAL TRAINING ACTIVITIES

	<u>2009</u>	<u>2008</u>
REVENUES		
Training	\$574 431	\$610 298
Administrative expenses	<u>215 285</u>	<u>91 172</u>
	<u>789 716</u>	<u>701 470</u>
EXPENSES		
Salaries and wages	337 365	339 579
Fringe benefits	68 671	57 234
Payroll taxes	127 636	113 097
Travelling expenses	8 761	13 027
Services purchased	12 088	9 083
Building rental	11 575	8 093
Equipment rental	624	2 076
Amortization of capital assets	34 570	2 321
Automotive equipment expenses	52 073	60 699
Office supplies	5 292	4 337
Other	<u>9 410</u>	<u>8 165</u>
	<u>668 065</u>	<u>617 711</u>
NET INCOME FROM EXTERNAL TRAINING ACTIVITIES	<u><u>\$121 651</u></u>	<u><u>\$83 759</u></u>

Net results do not include indirect administrative expenses. Revenues from administrative expenses include the recovery of approximately \$81 000 related to clarification of a contractual agreement with a partner, considered a non-recurrent item.

6. REVENUES – MISCELLANEOUS

	<u>2009</u>	<u>2008</u>
Recovery of taxes	\$4 147	\$1 126 457
Interest	262 887	479 104
Other	<u>110 538</u>	<u>50 663</u>
	<u><u>\$377 572</u></u>	<u><u>\$1 656 224</u></u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

7. EXPENDITURE BY RESPONSIBILITY CENTRE

	<u>Training</u>	<u>General administration</u>	<u>Computer services</u>	<u>Pre-hospital emergency services</u>
Salaries and wages	\$525 902	\$3 612 493	\$1 273 055	\$32 183 382
Fringe benefits (a)	381 908	1 184 474	278 319	7 346 631
Payroll taxes (b)	259 395	960 321	267 189	12 311 285
Medical supplies and medication	14 235	770		1 959 152
Travelling expenses	10 956	164 230	3 558	50 868
Services purchased (Note 8)	130 940	1 302 971	468 196	1 057 006
Communications	1 824	268 982	401	34 337
Building rental	780	36 942	4 011	1 759 096
Equipment rental		9 620		5 303
Capital leases : interest on bonds				305 566
Amortization of capital assets	44 102	33 069	152 225	3 881 404
Depreciation of capital assets				230 769
Loss (gain) on sale of capital assets	(540)			69 751
Uniform purchases and rental	10 906	12 489		876 859
Automotive equipment expenses	56 461			3 464 105
Office supplies	8 922	74 974	33 546	145 878
Doubtful accounts and collection charges				1 399 977
Doubtful accounts recovered				(73 932)
Insurance		107 391		
Interest and bank charges	35	1 384	35	527
Other	12 815	183 768	34 056	38 819
Expenditure recovery		(2 411)	(4 752)	(2 409)
	<u>\$1 458 641</u>	<u>\$7 951 467</u>	<u>\$2 509 839</u>	<u>\$67 044 374</u>

(a) Leave benefits under the collective agreement, including annual holidays, statutory holidays, sick leave and severance pay.

(b) Financial charges related to the employer contribution under social legislation and contract obligations.

(c) Inventories recognized as expenses total \$5 328 554 for the fiscal year ended March 31, 2009 (March 31, 2008: \$4 722 936).

Communications	Quality control and medical inspection	Specialized interventions	Operation of facilities	Total 2009	Total 2008 (Adjusted Note 3)
\$3 399 859	\$502 010	\$1 128 739		\$42 625 440	\$42 851 738
951 759	148 542	272 204		10 563 837	10 512 196
708 735	127 991	479 073		15 113 989	15 999 505
718	1 178	20 981		1 997 034	2 015 503
6 736	6 559	1 344		244 251	181 124
889 468	9 125	2 550	\$87 982	3 948 238	4 237 394
728 172				1 033 716	1 092 417
			1 408 578	3 209 407	3 082 971
32 131				47 054	45 722
				305 566	332 403
10 712		13 206	30	4 134 748	4 029 019
			(180)	230 769	381 598
				69 031	(318 944)
2 204	710	8 318		911 486	1 110 468
		69 446		3 590 012	2 958 209
24 273	511	70		288 174	300 722
				1 399 977	1 550 619
				(73 932)	(70 609)
				107 391	104 340
				1 981	3 646
22 034	687	447		292 626	297 663
				(9 572)	(66 221)
<u>\$6 776 801</u>	<u>\$797 313</u>	<u>\$1 996 378</u>	<u>\$1 496 410</u>	<u>\$90 031 223</u>	<u>\$90 631 483</u>

CORPORATION D'URGENCE-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. SERVICES PURCHASED**

	2009	2008 (Adjusted Note 3)
Computer services	\$106 391	\$96 177
Laundry	296 741	332 621
Maintenance and repairs - premises and equipment	1 336 201	1 313 944
Maintenance and repairs - computer-aided dispatch system	379 254	554 197
Monitor/defibrillator maintenance	97 647	142 705
Computer software updates	116 604	39 139
Training	185 342	107 935
Legal fees	413 315	775 388
Medical expertise costs	278 546	196 615
Professional fees	458 555	404 115
Relocation of head office	3 444	143 732
Process review, restructuring and strategic aims	54 014	107 924
Pay equity	196 617	
Other	25 567	22 902
	<u>\$3 948 238</u>	<u>\$4 237 394</u>

9. ACCOUNTS RECEIVABLE

	2009	2008
Ambulance Service Beneficiaries		
Health and social services institutions	\$3 460 614	\$4 023 356
Société de l'assurance automobile du Québec	71 163	65 581
Ministère de l'Emploi et de la Solidarité sociale	172 716	279 496
Individuals	2 656 120	2 747 116
Other	40 267	43 731
	<u>6 400 880</u>	<u>7 159 280</u>
Ministère de la Santé et des Services sociaux		
- subsidies	38 208	300 000
Sales tax receivable	649 826	673 934
Other accounts payable	994 128	791 622
	<u>8 083 042</u>	<u>8 924 836</u>
Allowance for doubtful accounts		
Individuals	(1 428 499)	(1 509 371)
	<u>\$6 654 543</u>	<u>\$7 415 465</u>

10. INVENTORY

	2009	2008 (Adjusted Note 3)
Medical supplies	\$471 709	\$525 448
Medication	26 280	26 280
Fuel	58 541	82 307
Garage furnishings and spare parts	131 105	131 105
	<u>\$687 635</u>	<u>\$765 140</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. PREPAID EXPENSES**

	2009	2008 (Adjusted Note 3)
Insurance	\$13 639	\$30 232
Taxes	98 235	94 412
Monitor/defibrillator maintenance	193 712	
Other	114 834	138 908
	<u>\$420 420</u>	<u>\$263 552</u>

12. FINANCIAL INSTRUMENTS**Financial risk management objectives and policies**

The Corporation is exposed to the following financial risks: credit risk, interest rate risk, liquidity risk and exchange rate risk resulting from its operating activities. Management is responsible for defining acceptable levels for these risks and examining their respective impact on the Corporation's activities.

Fair value of financial instruments

At March 31, the classification of financial instruments and their book value and fair value breaks down as follows:

	2009		2008	
	Book value	Fair value	Book value	Fair value
Financial assets				
Assets held for transaction purposes				
Cash on hand	\$5 203 450	\$5 203 450	\$6 162 629	\$6 162 629
Loans and accounts receivable				
Accounts receivable	6 654 543	6 654 543	7 415 465	7 415 465
Amount receivable from the Provincial Fund for the management of ambulance technicians' individual protective clothing			363 045	363 045
Financial liabilities				
Other liabilities				
Accounts payable and accrued liabilities	20 435 350	20 435 350	22 123 732	22 123 732
Amount payable to the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing	579 466	579 466	363 520	363 520
Commitments under capital leases	6 221 280	6 344 673	7 496 549	7 578 644
	<u>\$39 094 089</u>	<u>\$39 217 482</u>	<u>\$43 924 940</u>	<u>\$44 007 035</u>

CORPORATION D'URGENCES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. FINANCIAL INSTRUMENTS (cont'd)****Fair value of financial instruments (cont'd)**

The following methods and assumptions were used to determine the estimated fair value of each category of financial instrument:

- The fair value of cash on hand, accounts receivable, accounts payable and accrued liabilities and payables is comparably to their book value, given that they mature in the short term.
- The fair value of loans and advances to the Provincial Fund for the management of ambulance technicians' individual protective clothing and the Provincial Activities Fund corresponds to its book value, given that they bear interest at a variable rate.
- The fair value of the obligations resulting from capital lease contracts was determined by actualizing cash flows at the market rate for securities of a similar nature with regard to maturity date and interest rate.

Credit risk

Credit risk reflects the possibility that one party may not respect a contract's terms and conditions, resulting in the other party's incurring a loss. Generally, the book value indicated in the Corporation's balance sheet for its financial assets exposed to credit risk, minus any applicable provision for losses, represents the maximum amount exposed to credit risk.

The financial assets that can subject the Corporation to credit risk are primarily accounts receivable.

The Corporation evaluates the credit risk of its receivables by assessing its clients' financial position on an ongoing basis and studying the credit history of any new client, apart from individuals. The provision for bad debts is maintained in keeping with the credit risk represented by specific clients, historical trends and other information, as described below, and taken into account in the financial statements.

Analysis of the age of ambulance transportation beneficiaries breaks down as follows:

	2009			2008		
	Individuals	Other ¹	Total	Individuals	Other	Total
Current	\$760 967	\$2 266 977	\$3 027 944	\$785 471	\$2 504 935	\$3 290 406
Debts due within 30-60 days	304 733	1 016 571	1 321 304	393 928	1 068 259	1 462 187
Debts due within 61-90 days	198 844	428 229	627 073	178 544	441 452	619 996
Debts due within 91-120 days	104 915	23 744	128 659	63 435	127 569	191 004
Debts due after more than 121 days	1 286 661	9 239	1 295 900	1 325 738	269 949	1 595 687
	<u>2 656 120</u>	<u>3 744 760</u>	<u>6 400 880</u>	<u>2 747 116</u>	<u>4 412 164</u>	<u>7 159 280</u>
Provision for bad debts	<u>(1 428 499)</u>		<u>(1 428 499)</u>	<u>(1 509 371)</u>		<u>(1 509 371)</u>
	<u>\$1 227 621</u>	<u>\$3 744 760</u>	<u>\$4 972 381</u>	<u>\$1 237 745</u>	<u>\$4 412 164</u>	<u>\$5 649 909</u>

1 Represents the receivables of health and social services network establishments, the Société de l'assurance automobile du Québec and the Ministère de l'Emploi et de la Solidarité sociale.

CORPORATION D'URGENTES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. FINANCIAL INSTRUMENTS (cont'd)****Credit risk (cont'd)**

The change in the provision for bad debts for individuals' debts breaks down as follows:

	2009	2008
Opening balance	\$1 509 371	\$1 750 397
Provision for the fiscal year	1 244 950	1 354 613
Write-off for the fiscal year	<u>(1 325 822)</u>	<u>(1 595 639)</u>
Closing balance	<u>\$1 428 499</u>	<u>\$1 509 371</u>

Interest rate risk

The credit risk defines the possibility of a financial instrument's fair value or future cash flows fluctuating due to changes on the interest rate market.

The obligations resulting from the Corporation's capital lease contracts bear interest at fixed rates. However, the Corporation is not exposed to the interest rate risk which, generally, results from interest rate fluctuations on the market. The Corporation's policy consists, as far as possible, of maintaining the majority of its borrowings at fixed interest rates. Its long-term obligations are exposed to a risk in the change in their fair value due to fluctuations in the underlying interest rates.

Liquidity risk

The liquidity risk is the risk that the Corporation may not be able to honour its financial obligations when they come due. The Corporation is exposed to this risk mainly due to its long-term obligations, payables and accounts payable. The Corporation finances its activities through a combination of its cash flows linked to operating activities and its obligations under capital lease contracts.

Liquidity risk management seeks to maintain a sufficient amount of cash on hand and to ensure that the Corporation has sufficient sources of financing. The Corporation establishes budget and cash position forecasts to ensure that it has the funds available to meet its obligations in the foreseeable future.

The following table shows the Corporation's financial obligations for the next five years and subsequent fiscal years:

	Commitments under capital leases	Accounts payable and accrued liabilities	Total
Courant	\$2 200 620	\$20 435 350	\$22 635 970
2011	2 200 620		2 200 620
2012	2 019 099		2 019 099
2013	181 520		181 520
2014	45 381		45 381
Subsequent fiscal years			

Given the Corporation's available financing, its cash on hand and its payment calendar, management deems that the Corporation's liquidity risk is low.

CORPORATION D'URGENCE-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. FINANCIAL INSTRUMENTS (cont'd)****Exchange risk**

The Corporation is not exposed to a very high exchange risk since it has a very low volume of transactions in foreign currency in the normal course of its business. Consequently, this risk has no significant impact on its financial performance and position. At March 31, 2009, the Provincial Activity Fund had a US\$1 790 908 commitment, as disclosed on Note 19. The date the balance sheet was prepared, the exchange rate for the US dollar was \$1.2518.

13. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Computer equipment	\$3 408 667	\$3 169 526	\$239 141
Furniture and equipment	9 135 511	5 771 479	3 364 032
Automotive equipment	11 512 293	5 567 880	5 944 413
Leasehold improvements	37 901	4 853	33 048
Rolling stock being manufactured			
Computer-aided dispatch system	6 023 888	6 018 611	5 277
Computer-aided dispatch system being developed	71 058		71 058
	<u>30 189 318</u>	<u>20 532 349</u>	<u>9 656 969</u>
Capital assets held under capital leases:			
Automotive equipment	9 028 455	3 634 202	5 394 253
Equipment	812 993	25 014	787 979
	<u>9 841 448</u>	<u>3 659 216</u>	<u>6 182 232</u>
	<u>\$40 030 766</u>	<u>\$24 191 565</u>	<u>\$15 839 201</u>
			<u>\$16 051 084</u>

Capital assets totalling \$4 273 395 (2008: \$3 673 248) were acquired and include capital assets of \$812 993 (2008: \$2 605 478) acquired under capital leases. A sum of \$1 734 241 (2008: \$720 329) in cash was paid for the purchase of capital assets. Equipment purchases of \$2 073 602 (2008: \$347 441) were posted to expenses at March 31, 2009.

14. AUTHORIZED CREDIT LINE

The Ministère de la Santé et des Services sociaux authorizes the Corporation to borrow to meet its financing needs. As at March 31, 2009 and 2008, there were no authorized borrowings. Any Corporation borrowing contracted with its financial institution in the form of a credit line bears interest at the prime rate.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Suppliers	\$4 516 060	\$6 762 950
Wages and fringe benefits	9 013 183	8 823 239
Provision for vacation time, statutory holidays and sick leave	6 906 107	6 537 543
	<u>\$20 435 350</u>	<u>\$22 123 732</u>

CORPORATION D'URGENCES-SANTÉ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**16. COMMITMENTS UNDER CAPITAL LEASES**

	2009	2008
Commitments under capital leases:		
- rates varying from 4.18% to 4.58%, maturing until July 2013	\$6 221 280	\$7 496 549
Instalments due within one year	1 971 271	1 797 906
	<u>\$4 250 009</u>	<u>\$5 698 643</u>
Minimum payments required on commitments under capital leases are:		
2010		\$2 200 620
2011		2 200 620
2012		2 019 099
2013		181 520
2014		45 381
Total minimum payments required		<u>6 647 240</u>
Amount of interest included in total minimum payments required		<u>425 960</u>
		<u>\$6 221 280</u>

17. FUTURE FRINGE BENEFITS**Pension plans**

With the exception of the ambulance/paramedic technicians, Corporation staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death. The Corporation's contributions charged to the year-end statement totalled \$886 498 (2008: \$806 483).

Ambulance technicians/paramedics and Corporation support staff participate in the supplemental pension plan for ambulance technicians/paramedics and pre-hospital emergency services (RRTAP), a hybrid defined-contribution, defined-benefit plan. The defined-contribution portion of the plan is paid by the employee and has no provisions concerning benefits for past service. The defined-benefit portion is paid by the employer. This inter-enterprise plan includes guaranteed payments upon retirement and death. The Ministère de la Santé et des Services sociaux pays special contributions to make up for any plan deficit under the *Supplemental Pension Plans Act*. The Corporation's contributions for the fiscal year totalled \$1 793 652 \$ (2008: \$1 720 893).

The Corporation's liability towards these plans is restricted to its employer contributions.

Provisions for vacation time, holidays and sick leave

	Vacation time and holidays	Sick leave	Total 2009	Total 2008
Opening balance	\$6 619 840	\$(82 297)	\$6 537 543	\$6 440 160
Annual expenses	8 862 417	2 079 448	10 941 865	10 619 285
Benefits paid during the year	<u>(8 545 112)</u>	<u>(2 028 189)</u>	<u>(10 573 301)</u>	<u>(10 521 902)</u>
Closing balance	<u>\$6 937 145</u>	<u>\$(31 038)</u>	<u>\$6 906 107</u>	<u>\$6 537 543</u>

This provision is included in the item "Accounts payables and accrued liabilities".

CORPORATION D'URGENTES-SANTÉNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**18. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Corporation is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Corporation did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

19. COMMITMENTS

The Corporation is committed under long-term contracts for office space and equipment and equipment maintenance terminating on various dates up to June 2012.

Payments for the year ended March 31, 2009, totalled \$3 351 635 (2008: \$3 354 919). Minimum payments for the coming fiscal years are:

2010	\$3 710 859
2011	1 880 172
2012	1 018 303
2013	<u>255 741</u>
	<u>\$6 865 075</u>

The Corporation has also committed \$8 969 272 for the development of a computer-aided dispatch system and has already posted \$71 059. The remaining \$8 898 213 will be paid over the next two fiscal years.

Provincial Activities Fund

Under a contract signed by the Ministère de la Santé et des Services sociaux, the Provincial Activities Fund will have to pay a total of US\$1 790 908, ending in March 31, 2013, for the implementation of a call prioritization system to use throughout Québec. Payments for coming fiscal years, converted into Canadian dollars at March 31, 2009, are as follows:

2010	\$560 465
2011	560 465
2012	560 465
2013	<u>560 465</u>
	<u>\$2 241 860</u>

Provincial Fund for the management of ambulance technicians' individual protective clothing

Under a contract signed by the Corporation, the Provincial Fund for the management of ambulance technicians' individual protective clothing will have to pay a maximum of \$750 000 plus tax over the next two years for the management of individual protective clothing for Québec's ambulance technicians.

20. CONTINGENCY

In May 2006, an ambulance supplier submitted a claim for \$3 976 316 to the Québec Superior Court for possible damages following the cancellation of a contract between the Corporation and the supplier in question.

In the opinion of Corporation management, this claim is unfounded and is being contested. Since the outcome is uncertain and the amount impossible to estimate, no provision has been posted in the financial statements.

CORPORATION D'URGENCES-SANTÉ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

21. ADDITIONAL CASH FLOW INFORMATION

	2009	2008
Interest paid	\$307 547	\$336 049
Interest earned	262 887	479 104
Acquisition of capital assets not paid by year-end	2 073 602	347 441
Capital assets acquired under capital lease contracts	812 993	2 605 478

22. INFORMATION ON CAPITAL

The Corporation defines its capital as the cumulated surplus.

The Corporation has no capital stock and uses cash flows, obligations on capital lease contracts and other borrowings where applicable to finance its activities.

Under its incorporating legislation and guidelines, the Corporation required Ministère de la Santé et des Services sociaux authorization for certain borrowing and goods acquisition transactions or expenditures in addition to its authorized budget.

Further, in keeping with a Ministère de la Santé et des Services sociaux directive, the surplus can be used only for functions envisaged by law and cannot be committed with the MSSS's prior authorization.

The Corporation is subject to no other requirement regarding capital from outside sources.

During the fiscal year, the Corporation met all of the capital requirements governing it.

The Corporation manages its capital by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the goals specified in its incorporating act.

23. PAY EQUITY

Following the adoption of the *Pay Equity Act* on November 21, 1996, the Corporation is assessing its different job categories. On the date the financial statements were prepared, the Corporation was not able to assess the amount it might have to disburse, if applicable, given that the work related to this process had not yet been completed. Consequently, no amount was posted in the financial statements.

24. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

CORPORATION D'URGENCES-SANTÉ

MANAGEMENT'S REPORT

The financial statements of the Corporation d'urgences-santé were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Corporation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Nicola d'Ulisse
President and Chief Executive Officer

Jean Girouard
Director, Finance and Vehicle Management

Montréal, May 28, 2009

CORPORATION D'URGENCES-SANTÉ

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Corporation d'urgences-santé (Corporation) as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. I have also audited the balance sheets of the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing, which are administered by the Corporation, as at March 31, 2009, and their statements of changes in fund balance for the year then ended. These financial statements are the responsibility of Corporation management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation, the Provincial Activities Fund and the Provincial Fund for the management of ambulance technicians' individual protective clothing as at March 31, 2009 and the results of the Corporation's operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 28, 2009

PUBLIC CURATOR (THE)
(R.S.Q., c. C-81)

STATEMENT OF OPERATIONS FOR ACCOUNTS ADMINISTERED
for the year ended December 31, 2008

	2008	2007
REVENUES		
Social assistance	\$59 417 404	\$58 170 399
Old age security program	51 534 025	48 329 217
Régime de rentes du Québec	15 623 441	14 608 264
Other pensions	13 464 219	12 204 511
Tax credits and income	6 798 813	5 985 859
Régime public d'assurance automobile du Québec	4 653 480	5 567 932
Inheritance	5 855 817	4 054 609
Rent	646 452	729 205
Interest and dividends	667 963	473 747
Insurance	222 950	359 269
Compensations for financial losses	447 062	509 593
Indemnities received from government agencies	99 000	585 000
Other	1 855 836	1 394 870
	<u>161 286 462</u>	<u>152 972 475</u>
EXPENSES		
Lodging and allowance for out-of-pocket expenses	130 406 395	124 799 421
Public Curator of Québec's fees	6 100 614	5 745 267
Medical expenses	5 193 340	4 795 439
Income taxes and other taxes	3 143 382	3 039 473
Funeral services	2 892 814	2 693 282
Public services	1 651 432	1 370 511
Legal costs	1 086 378	860 712
Maintenance and repairs – buildings	608 957	573 276
Insurance premiums	553 388	597 938
Interest charges	112 215	136 898
Loss (gain) on sale of assets	303 542	(32 729)
Other	3 091 984	3 031 020
	<u>155 144 441</u>	<u>147 610 508</u>
INCOME BEFORE THE FOLLOWING ITEMS	6 142 021	5 361 967
Reassessment of assets (Note 7)	5 823 524	5 676 641
Reassessment of liabilities (Note 7)	(1 131 725)	(1 386 369)
Realized income from group fund investments (Note 8)	5 922 501	7 425 607
Change in unrealized group fund investment gains (losses) (Note 9)	<u>(15 046 531)</u>	<u>(1 202 294)</u>
NET INCOME	<u>\$1 709 790</u>	<u>\$15 875 552</u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)**BALANCE SHEET FOR ACCOUNTS ADMINISTERED**
as at December 31, 2008

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and term deposits (Note 3)	\$25 878 945	\$19 432 298
Prepaid expenses	6 004 597	5 574 339
Shares	2 164 114	2 408 469
Bonds (Note 3)	6 170 131	6 510 799
Mutual funds	4 382 918	5 654 078
RRSP, QSSP, RRIF (Note 3)	11 715 354	12 005 113
Group fund investments (Note 4)	184 389 053	188 976 659
Immoveables	36 732 230	32 962 022
Life insurance policy buy-back value	3 023 065	2 939 664
Prior arrangements for funeral services	3 275 460	3 222 545
Notes and other accounts receivable (Notes 3 and 5)	14 028 764	10 216 137
Valuable objects and property in storage	464 096	465 877
Motor vehicles	339 382	355 197
Mortgage loans (Note 3)		32 814
Other	44 888	60 019
	<u>\$298 612 997</u>	<u>\$290 816 030</u>
LIABILITIES		
Payables	\$17 075 767	\$15 839 639
Proceeds collected in advance	4 354 617	4 251 430
Mortgage loans (Note 3)	1 814 532	1 704 273
Group fund payables (Note 6)	1 519 283	1 328 560
Deposits on offers to purchase	72 788	64 198
	<u>24 836 987</u>	<u>23 188 100</u>
NET ASSETS OF ACCOUNTS ADMINISTERED	<u>273 776 010</u>	<u>267 627 930</u>
	<u>\$298 612 997</u>	<u>\$290 816 030</u>

CONTINGENCIES (Note 11)

The notes are an integral part of these financial statements.

Accepted and approved,
Diane Lavallée
Public Curator of Québec

PUBLIC CURATOR (THE)STATEMENT OF CHANGE IN NET ASSETS FOR ACCOUNTS ADMINISTERED
for the year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
OPENING BALANCE	<u>\$267 627 930</u>	<u>\$259 978 222</u>
NET INCOME	<u>1 709 790</u>	<u>15 875 552</u>
New assets	45 173 972	40 585 354
New liabilities	(9 276 378)	(8 291 773)
Remittance of property to heirs and assigns (Note 10)	(32 394 657)	(40 737 208)
Deletion and cancellation of certain liabilities	2 261 901	1 277 056
Deletion and cancellation of certain assets	<u>(1 326 548)</u>	<u>(1 059 273)</u>
	<u>4 438 290</u>	<u>(8 225 844)</u>
CLOSING BALANCE	<u><u>\$273 776 010</u></u>	<u><u>\$267 627 930</u></u>

The notes are an integral part of these financial statements.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS as at December 31, 2008

1. CONSTITUTION AND NATURE OF ACTIVITIES

The Public Curator is a person appointed by the Government under the *Public Curator Act* (R.S.Q., c. C-81) primarily to:

- represent persons of full age considered incompetent to varying degrees, in order to ensure their moral and physical well-being and protect their rights;
- monitor, inform and assist private curators and tutors appointed to represent persons of full age who are not competent in their administration; do the same for tutors of minors and occasionally assume tutorship role for minors' property.

The Public Curator receives fees for representing persons, administering the property entrusted to it, monitoring private curatorships and tutorships, managing portfolios under joint administration and other duties conferred by legislation.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the provision for bad debts and accrued interest on term deposits. Real results may differ from these estimates.

The assets and liabilities administered on behalf of persons are posted when the Public Curator's jurisdiction is established and as their existence becomes known.

The statement of cash flows is not shown as it would not provide any additional useful information on the cash flows during the year.

The various assets and liabilities are valued as follows:

- **Cash and term deposits**

Cash, including beneficiaries' cash amounts held on behalf of persons represented under curatorship or tutorship in health and social services establishments, and term deposits at acquisition cost plus interest, where applicable.

- **Prepaid expenses**

Amounts paid for services to be rendered in future fiscal years.

- **Shares**

Shares at closing selling value on the certified stock exchange where the corresponding security is traded most.

- **Bonds**

Bonds are evaluated at fair value based on the rates obtained from recognized stockbrokers.

- **Mutual funds**

Mutual funds, at selling value.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008

2. ACCOUNTING POLICIES (cont'd)

- **RRSPs, QSSPs, RRIFs**

RRSPs, Stock Savings Plans and RRIFs are assessed at fair value in the same manner as the above-mentioned shares, bonds, mutual funds and terms deposits.

- **Immoveables**

Capital assets, at standardized property assessment value.

- **Life insurance policy buy-back value**

The buy-back value of life insurance policies, including dividends receivable, is assessed at their realization value, minus borrowings, at the beginning of jurisdiction. Subsequently, this value is modified on the insurance policy anniversary date and thereafter when dividends receivable are cashed and borrowings repaid.

- **Prearranged funeral services**

Prearranged funeral services, at acquisition cost.

- **Notes and other accounts receivable, motor vehicles, mortgage loans and other assets**

Notes and other accounts receivable, motor vehicles, mortgage loans and other assets, at net realizable value.

- **Valuable objects and property in storage**

Valuable objects and property in storage are assessed at their realizable value at the beginning of jurisdiction.

The amount of moveables kept at a third party's or in the home of the person represented is not posted. This property is of little value and cannot reasonably be assessed.

Where applicable, when the value of various assets and liabilities cannot be determined reasonably, it is recorded as \$1.

No latent income tax resulting from these assets is recorded to diminish the value of the above-mentioned assets.

Group fund investments

Cash and cash equivalents managed collectively by the Public Curator are incorporated into three group funds: Cash Fund, Revenue Fund and Diversified Fund.

Investments are recorded at fair value, established as follows:

- Money market securities are recorded at cost which, when accrued interest is added, approaches their fair value;
- Bonds are measured using the buying value obtained from recognized securities brokers;
- Stock market shares are measured at the market rate, i.e. the closing buying value on the certified stock exchange where the corresponding security is traded most.

The fluctuation in the fair value of group fund investments is recorded as an unrealized gain (loss) on investments.

PUBLIC CURATOR (THE)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008

2. ACCOUNTING POLICIES (cont'd)

Group fund investments (cont'd)

The cost is determined using the average cost method.

Payables and mortgage loans

Section 43 of the *Public Curator Act* states that “the Public Curator shall maintain a separate administration and accounting in respect of each patrimony of which he has the administration. He shall be liable for the debts relating to any patrimony he administers only to the extent of the value of the property of the patrimony”.

In this regard, the liabilities shown in this balance sheet represent those that the Public Curator administers and not the liabilities he has the legal responsibility to pay. The immoveables are generally given as collateral for mortgage loans.

Revenues collected in advance

Revenues collected in advance represent benefits received before the period in which they will be paid out.

Recording of results of operations for accounts administered

The group Cash Fund's net investment income is credited monthly, if applicable, to curatorship and tutorship accounts. The Revenue Fund's net income is paid monthly into the Cash Fund of each shareholder's account. The Diversified Fund's net income is reinvested quarterly in each shareholder's account.

The various benefits and different products are recognized when earned by the persons represented.

3. CONTRACTUAL CONDITIONS OF CERTAIN ASSETS AND LIABILITIES

The contractual conditions governing interest rates and maturity dates of terms deposits, bonds, RRSPs, QSSPs, RRIFs, notes and accounts receivable, mortgage loans and mortgage borrowings held directly by the persons represented cannot reasonably be taken stock of by the Public Curator.

PUBLIC CURATOR (THE)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008**4. GROUP FUND INVESTMENTS**

	Cash Fund	
	2008	2007
Short-term		
Cash on hand	\$12 000 715	\$9 043 478
Short-term investments	39 935 672	38 785 806
Interest and dividends receivable	584 553	348 060
Minister of Revenue of Québec receivable		185 586
Revenue Fund receivable, no interest or terms of repayment (Note 6)	123 167	124 650
Diversified Fund receivable, no interest or terms of repayment (Note 6)	175 339	192 764
	<u>52 819 446</u>	<u>48 680 344</u>
Long-term *		
Bonds		
Shares		
Mortgage certificates		
	<u>\$52 819 446</u>	<u>\$48 680 344</u>

*** Long-term investment at March 31, 2008**

	Terms	Interest rates	Revenue Fund	Diversified Fund	Total
			2008	2008	2008
Federal government bonds	3 – 9 years	3.50% – 4.25%	\$2 937 692	\$2 799 550	\$5 737 242
Provincial government bonds	2 – 30 years	4.50% – 6.50%	15 345 237	49 941 159	65 286 396
Corporate bonds	1 – 25 years	3.65% – 7.00%	9 271 492	20 310 562	29 582 054
Corporate shares				28 967 105	28 967 105
			<u>\$27 554 421</u>	<u>\$102 018 376</u>	<u>\$129 572 797</u>

Short-term investments include discount notes and T-bills. Interest rates vary from 2.7% to 3.52% (2007: 4.26% to 4.84%).

These short-term investments mature at varying dates until May 2009.

The book value of these short-term assets and liabilities is comparable to their fair value, given that they mature in the near future.

The Public Curator does not consider that the accounts administered are exposed to major credit risks since investments represent various government securities and bonds and shares of many major Canadian companies.

Revenue Fund		Diversified Fund		Total	
2008	2007	2008	2007	2008	2007
\$454 724	\$397 432	\$700 102	\$1 493 175	\$13 155 541	\$10 934 085
277 984	329 385	564 000	500 054	39 935 672	38 785 806
				1 426 537	1 177 499
					185 586
				123 167	124 650
				175 339	192 764
<u>732 708</u>	<u>726 817</u>	<u>1 264 102</u>	<u>1 993 229</u>	<u>54 816 256</u>	<u>51 400 390</u>
26 890 956	26 912 728	71 748 259	67 353 860	98 639 215	94 266 588
663 465	799 933	28 967 105	40 980 898	28 967 105	40 980 898
		<u>1 303 012</u>	<u>1 528 850</u>	<u>1 966 477</u>	<u>2 328 783</u>
<u>27 554 421</u>	<u>27 712 661</u>	<u>102 018 376</u>	<u>109 863 608</u>	<u>129 572 797</u>	<u>137 576 269</u>
<u>\$28 287 129</u>	<u>\$28 439 478</u>	<u>\$103 282 478</u>	<u>\$111 856 837</u>	<u>\$184 389 053</u>	<u>\$188 976 659</u>

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008

5. NOTES AND OTHER ACCOUNTS RECEIVABLE

A \$3 223 585 (\$3 586 073 at December 31, 2007) provision for bad debts was deducted from the balance of notes and other accounts receivable.

6. GROUP FUND PAYABLES

	Cash Fund	
	2008	2007
Accounts payable	\$159 734	\$163 958
Amount owing to the Consolidated Revenue Fund, no interest or terms of repayment	1 039 788	816 588
Amount owing to the Cash Fund, no interest or terms of repayment (Note 4)		
	<u>\$1 199 522</u>	<u>\$980 546</u>

7. REMEASUREMENT OF ASSETS AND LIABILITIES

The items regarding remeasurement of assets and liabilities represent the annual change in their fair values, with the exception of adjustments to the group funds presented separately as an unrealized added value or decline in value of investments.

8. NET REALIZED GROUP FUND INVESTMENT INCOME

	Cash Fund	
	2008	2007
Revenues		
Interest on bonds and short-term investments	\$1 526 389	\$1 949 024
Dividends		
Gains (losses) on sale of investments		
	<u>1 526 389</u>	<u>1 949 024</u>
Expenses		
Administrative fees – Consolidated Revenue Fund	692 805	700 851
Taxes on administrative fees and other expenses	89 199	97 119
Daycare costs and other services	<u>92 956</u>	<u>97 846</u>
	<u>874 960</u>	<u>895 816</u>
Net realized investment income	<u>\$651 429</u>	<u>\$1 053 208</u>

Revenue Fund		Diversified Fund		Total	
2008	2007	2008	2007	2008	2007
\$5 093	\$9 390	\$16 162	\$21 210	\$180 989	\$194 558
				1 039 788	816 588
123 167	124 650	175 339	192 764	298 506	317 414
<u>\$128 260</u>	<u>\$134 040</u>	<u>\$191 501</u>	<u>\$213 974</u>	<u>\$1 519 283</u>	<u>\$1 328 560</u>

Revenue Fund		Diversified Fund		Total	
2008	2007	2008	2007	2008	2007
\$1 404 932	\$1 430 223	\$3 799 369	\$3 521 407	\$6 730 690	\$6 900 654
		820 438	729 349	820 438	729 349
103 081	(288 609)	2 451 193	4 188 386	2 554 274	3 899 777
<u>1 508 013</u>	<u>1 141 614</u>	<u>7 071 000</u>	<u>8 439 142</u>	<u>10 105 402</u>	<u>11 529 780</u>
571 926	543 739	2 251 873	2 168 595	3 516 604	3 413 185
73 520	75 852	289 929	302 519	452 648	475 490
36 260	36 158	84 433	81 494	213 649	215 498
681 706	655 749	2 626 235	2 552 608	4 182 901	4 104 173
<u>\$826 307</u>	<u>\$485 865</u>	<u>\$4 444 765</u>	<u>\$5 886 534</u>	<u>\$5 922 501</u>	<u>\$7 425 607</u>

PUBLIC CURATOR (THE)

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008

9. CHANGE IN UNREALIZED GROUPED FUND INVESTMENT GAINS (LOSSES)

	Revenue Fund		Diversified Fund		Total	
	2008	2007	2008	2007	2008	2007
Unrealized cumulative investment gains (losses) at the beginning of the fiscal year	\$41 286	\$79 492	\$16 214 784	\$17 378 872	\$16 256 070	\$17 458 364
Change in unrealized investment gains (losses) resulting from fluctuations in fair value during the fiscal year	<u>544 175</u>	<u>(38 206)</u>	<u>(15 590 706)</u>	<u>(1 164 088)</u>	<u>(15 046 531)</u>	<u>(1 202 294)</u>
Unrealized cumulative investment gains (losses) at the end of the fiscal year	<u>\$585 461</u>	<u>\$41 286</u>	<u>\$624 078</u>	<u>\$16 214 784</u>	<u>\$1 209 539</u>	<u>\$16 256 070</u>
Cost of bonds	\$26 289 534	\$26 871 237	\$71 260 831	\$66 212 692	\$97 550 365	\$93 083 929
Cost of shares			28 800 682	25 912 949	28 800 682	25 912 949
Cost of mortgage certificates	679 426	800 138	1 332 785	1 523 187	2 012 211	2 323 325

10. PROPERTY REMITTED

This item corresponds to property remitted to the rightful owners. Since April 1, 2006, it includes property remitted to the Minister of Revenue for the estates of deceased persons represented who have no heirs.

11. CONTINGENCIES

Various legal and non-legal proceedings involving the Public Curator are currently under way. On the date the financial statements were prepared, the Public Curator could not foresee the outcome of these disputes or estimate the value of financial compensation that might result.

12. COMPARATIVE FIGURES

Certain figures for the fiscal year ended December 31, 2007 were reclassified for consistency with the presentation adopted for the fiscal year ended December 31, 2008.

PUBLIC CURATOR (THE)**MANAGEMENT'S REPORT**

The financial statements for accounts administered by the Public Curator of Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Public Curator recognizes that she is responsible for conducting business in accordance with the statutes and regulations governing the office.

The Public Curator in office is responsible for ensuring that management performs its financial reporting duties and is ultimately responsible for auditing and approving the financial statements. She is assisted in her duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Public Curator approve them.

The Auditor General of Québec has audited the financial statements of accounts administered by the Public Curator of Québec in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of the audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to his audit.

Diane Lavallée
Public Curator of Québec

Sylvain Gendreau
Director, General of Administration

Pierre Roy
Director, Financial and Material Resources

Montréal, November 20, 2009

PUBLIC CURATOR (THE)

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Public Curator of Québec as at December 31, 2008 and the statements of operation for accounts administered and change in net assets for accounts administered for the year then ended. These financial statements are the Public Curator's responsibility. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Public Curator's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, November 20, 2009

ÉCOLE NATIONALE DE POLICE DU QUÉBEC
(R.S.Q., c. P-13.1)

STATEMENT OF OPERATIONS AND EQUITY
for the year ended June 30, 2008

	2008	2007
REVENUES		
Police force contributions (Note 13)	\$10 419 649	\$9 877 510
Gouvernement du Québec subsidy		
Rent	6 987 100	7 062 100
Research project	13 905	23 784
Training (Notes 5 and 13)	10 152 883	7 452 396
Lodging (Notes 5 and 13)	4 224 143	3 439 476
Interest	64 047	89 593
Other	447 881	329 681
	<u>32 309 608</u>	<u>28 274 540</u>
EXPENSES		
Salaries and fringe benefits (Note 6)	16 371 934	14 654 684
Transportation and communications	815 658	573 982
Professional services	1 741 351	1 507 385
Maintenance and repairs	274 922	256 799
Rent – Société immobilière du Québec	9 347 981	8 175 801
Equipment rental, etc.	376 489	220 774
Supplies, teaching materials, etc. (Note 7)	2 200 973	1 774 030
Amortization of capital assets	1 086 519	1 056 592
	<u>32 215 827</u>	<u>28 220 047</u>
EXCESS OF REVENUES OVER EXPENSES	93 781	54 493
OPENING EQUITY	<u>1 038 661</u>	<u>984 168</u>
CLOSING EQUITY	<u><u>\$1 132 442</u></u>	<u><u>\$1 038 661</u></u>

The notes are an integral part of these financial statements.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

BALANCE SHEET
as at June 30, 2008

	2008	2007
ASSETS		
Current assets		
Cash on hand	\$1 023 176	\$5 217 178
Accounts receivable (Note 13)	2 225 080	2 147 287
Police force contribution receivable		
First instalment (Note 13)	7 439 046	699 544
Second instalment	3 344 719	3 272 737
Gouvernement du Québec subsidy receivable		7 062 100
Prepaid rent - Société immobilière du Québec	4 030 123	
Inventory	537 946	495 327
	<u>18 600 090</u>	<u>18 894 173</u>
Capital assets (Note 8)	<u>2 595 837</u>	<u>2 721 035</u>
	<u><u>\$21 195 927</u></u>	<u><u>\$21 615 208</u></u>
LIABILITIES		
Current liabilities		
Financing Fund borrowing (Note 9)	\$802 655	
Accounts payable and accrued liabilities		
Wages	1 057 141	\$1 009 024
Rent – Société immobilière du Québec	547 804	2 331 592
Other	2 178 094	1 845 465
Provision for vacation time	913 949	863 941
Deferred revenue (Note 10)		
Police force contributions	8 087 823	7 723 708
Gouvernement du Québec subsidy	5 071 575	5 296 575
Other	416 646	557 671
	<u>19 075 687</u>	<u>19 627 976</u>
Long-term liabilities		
Provision for sick leave (Note 11)	<u>987 798</u>	<u>948 571</u>
	20 063 485	20 576 547
EQUITY	<u>1 132 442</u>	<u>1 038 661</u>
	<u><u>\$21 195 927</u></u>	<u><u>\$21 615 208</u></u>

COMMITMENTS (Note 12)

The notes are an integral part of these financial statements.

For the Board of Directors,
Daniel McMahon, FCA, Chairman, Board of Directors
Michel Beaudoin, Director General

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS June 30, 2008

1. CONSTITUTION AND PURPOSE

The École nationale de police du Québec (School) is a government agent corporation established under the *Police Act* (R.S.Q., c. P-13.1). As a think tank and an integrated police training centre, it is mandated to ensure the pertinence, quality and coherence of all activities related to police training.

Under federal and provincial income tax legislation, the School does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires School management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the School's cash flows during the year.

Financial instruments

Initial measurement

Financial instruments are recognized at their fair value on the date of the transaction.

Category of financial instrument and subsequent measurement

Assets and liabilities held for transaction purposes

The assets and liabilities held for transaction purposes are assets that the School acquired primarily for resale in the short term for profit or that belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking. This category also includes assets and liabilities not respecting the above-mentioned criteria but that the School has decided to irrevocably designate as held for transaction purposes.

Assets and liabilities held for transaction purposes are measured at their fair value. The gains and losses resulting from their reassessment at fair value are reported under net results.

The School has classified cash as assets and liabilities held for transaction purposes and irrevocably designated accounts receivable, police force contributions, the Financing Fund borrowing, accounts payable and accrued liabilities.

Inventory

Office supplies, foodstuffs, ammunition and clothing are valued using the specific identification method.

Capital assets

Capital assets are recorded at cost and amortized using the straight-line method as follows:

Furniture and equipment	5 and 10 years
Rolling stock	5 years
Leasehold improvements	5 years
Computer equipment	3 years
Computer software	3 and 5 years

The School regularly examines its capital assets' book value, comparing it to the unrealized future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimating future cash flows and determining the fair value requires exercising professional judgement and may vary over time.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**June 30, 2008

2. ACCOUNTING POLICIES (cont'd)**Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the School lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Revenue reporting

Police force contributions and Gouvernement du Québec subsidies are posted to revenues in the fiscal year in which the related expenses are incurred.

Revenues from service delivery are posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The service has been rendered;
- The service price has been, or can be, determined;
- Recovery is reasonably certain.

3. CHANGE IN ACCOUNTING POLICY

During the year, the School applied the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations for recognizing, measuring and disclosing financial instruments following the release of Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation".

For the application of Section 3855, the classification adopted by the School is disclosed in Note 2. Previously, financial instruments were reported at cost.

The impact of these new accounting policies is limited solely to disclosing additional information, given that there was no effect on financial instrument measurement following the classification adopted by the School.

4. FUTURE CHANGES TO ACCOUNTING POLICY

In the coming fiscal year, the School will apply the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations for Section 3031, "Inventories", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

Sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements.

Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008.

Since sections 3862 and 3863 target specifically information to be disclosed, they will not affect the School's results. Management deems that applying the new standards in sections 3031 and 3064 will have no significant impact on its financial statements.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

5. LODGING AND TRAINING

	Training		Lodging	
	2008	2007	2008	2007
Rookie training	\$3 800 367	\$2 742 113	\$1 579 181	\$1 408 474
Police officer training	2 826 045	2 255 770	731 575	662 069
Native officer training	700 311	662 663	285 485	254 373
Customized training	2 084 306	1 179 743	799 506	340 964
Assessment centre for police personnel	741 854	612 107	41 273	31 013
Other			787 123	742 583
	<u>\$10 152 883</u>	<u>\$7 452 396</u>	<u>\$4 224 143</u>	<u>\$3 439 476</u>

6. SALARIES AND FRINGE BENEFITS

	2008	2007
Police officers – Sûreté du Québec	\$599 839	\$614 920
Municipal police officers	1 675 485	1 275 646
Instructors and lecturers	440 276	419 208
Other employees	13 656 334	12 344 910
	<u>\$16 371 934</u>	<u>\$14 654 684</u>

7. SUPPLIES, TEACHING MATERIALS, ETC.

	2008	2007
Teaching materials	\$1 129 390	\$934 424
Foodstuffs and dwelling supplies	748 138	601 490
Stationery, supplies and office items	173 456	150 397
Furniture and equipment	149 989	87 719
	<u>\$2 200 973</u>	<u>\$1 774 030</u>

8. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Capital assets			
Furniture and equipment	\$3 756 376	\$2 667 407	\$1 088 969
Rolling stock	1 360 709	852 093	508 616
Leasehold improvements	888 557	610 171	278 386
Computer equipment	1 173 345	840 837	332 508
	<u>7 178 987</u>	<u>4 970 508</u>	<u>2 208 479</u>
Intangible assets			
Software	1 515 683	1 128 325	387 358
	<u>\$8 694 670</u>	<u>\$6 098 833</u>	<u>\$2 595 837</u>
			<u>\$2 721 035</u>

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008**8. CAPITAL ASSETS (cont'd)**

Capital asset acquisitions totalled \$975 300 (2007: \$1 034 127). Capital asset sales generated gains of \$27 515 (2007: \$11 880), a net loss of \$3 470 and revenues of \$38 023 (2007: \$11 880).

9. SHORT-TERM BORROWING

The School is authorized to contract short-term borrowings or borrow on credit to a maximum of \$5 000 000 until June 30, 2012, at variable or fixed rates not exceeding the prime rate, from financial institutions or the Gouvernement du Québec's Financing Fund.

A credit-line agreement with the Gouvernement du Québec's Financing Fund offers a daily interest rate that equals bank one-month acceptances plus 0.3%. At June 30, 2008, the School had no short-term borrowings. At June 30, 2008, the School had a short-term borrowing of \$802 655, bearing interest at 3.46%.

Further, the School has a \$300 000 credit line at the prime rate with a financial institution. At June 30, 2008, the school had contracted no borrowing in this regard.

10. DEFERRED REVENUE

Deferred revenue from police force contributions represents the portion of the contribution that will be earned the following fiscal year.

Deferred revenue from the subsidy represents the amount received from the Gouvernement du Québec to fund the School's rental for the following fiscal year.

Other deferred revenue comprises primarily lodging income received in advance for the basic police-training program.

11. FUTURE FRINGE BENEFITS**Pension Plans**

School staff participates in the Pension Plan for Senior Officials (PPSO), Government and Public Employees Retirement Plan (RREGOP), Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) or Pension of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2008, the School's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPSO and PPMP from 7.78% to 10.54%. The SPMSQ contribution rate remained the same.

The School pays employer contributions for staff members released by the Sûreté du Québec who contribute to the SPMSQ. The School's contributions charged to the year-end statement totalled \$637 334 (2007: \$574 887). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

	2008	2007
Opening balance	\$948 571	\$854 428
Annual expenses	293 761	281 998
Benefits paid during the year	(254 534)	(187 855)
Closing balance	\$987 798	\$948 571

ÉCOLE NATIONALE DE POLICE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) June 30, 2008

12. COMMITMENTS

The School is committed to the Société immobilière du Québec, under long-term leases terminating in 2028 and under building rental and various other contracts (goods and services) expiring by 2012.

The fiscal year's building rental expenses totalled \$9 347 981 (2007: \$8 175 801). Goods and services rentals related to these commitments totalled \$385 951 (2007: \$379 344). Minimum future payments are:

Year	Buildings	Goods and services
2009	\$8 060 245	\$326 500
2010	8 060 245	326 500
2011	8 060 245	41 212
2012	8 060 245	15 910
2013	8 060 245	
2014 and thereafter	123 503 675	
	<u>\$163 804 900</u>	<u>\$710 122</u>

13. RELATED PARTY TRANSACTIONS

	2008	2007
Revenues		
Police force contributions	\$3 838 185	\$3 693 950
Training	3 124 917	2 173 281
Lodging	1 420 150	1 037 826
Accounts receivable and police force contributions	\$5 087 276	\$1 150 256

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the School is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The School did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value.

Credit risk

The School's credit risk exposure corresponds to the book value of the financial assets. The credit risk related to these assets is not concentrated in a single sector of activity. The School assesses these assets on an ongoing basis and posts a provision for losses when accounts are deemed uncollectible.

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the École nationale de police du Québec (School) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The School recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the School's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Michel Beaudoin
Director General

Daniel Jean, CMA
Director, Administrative and Technological Support

Nicolet, August 29, 2008

ÉCOLE NATIONALE DE POLICE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly,

I have audited the balance sheet of the École nationale de police du Québec as at June 30, 2008 and the statement of operations and equity for the year then ended. These financial statements are the responsibility of School management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the School's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, August 29, 2008

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC
(R.S.Q., c. s-3.4)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended June 30, 2008

	2008	2007
REVENUES		
Gouvernement du Québec subsidy	\$975 600	\$933 800
Training	1 535 850	1 425 404
Publications	110 498	98 258
Other revenues	34 383	21 453
Interest	37 016	15 602
	<u>2 693 347</u>	<u>2 494 517</u>
EXPENSES		
Salaries and fringe benefits	1 006 888	792 268
Travel costs	208 448	112 626
Teaching materials	192 547	102 238
Information systems	143 828	206 409
Rent	104 069	117 600
Office supplies	102 132	70 121
Honoraria	106 755	109 284
Advertising and promotion	75 276	38 800
Development of training programs and teaching materials	30 047	50 340
Telecommunications	17 881	14 146
Financial charges	7 119	7 411
Amortization of capital assets	157 124	80 151
Gain on sale of assets		(450)
Settlement of a dispute		40 000
	<u>2 152 114</u>	<u>1 740 944</u>
EXCESS OF REVENUES OVER EXPENSES	541 233	753 573
OPENING CUMULATED SURPLUS	<u>1 062 048</u>	<u>308 475</u>
CLOSING CUMULATED SURPLUS	<u>\$1 603 281</u>	<u>\$1 062 048</u>

The notes are an integral part of these financial statements.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

BALANCE SHEET
as at June 30, 2008

	2008	2007
ASSETS		
Current assets		
Cash on hand	\$208 107	\$226 039
Term deposit, 4.25 % (2007: 3.6 %)	1 000 000	300 000
Accounts receivable	259 761	208 871
Stocks	121 924	99 920
Prepaid expenses	39 807	61 916
	<u>1 629 599</u>	<u>896 746</u>
Capital assets (Note 3)	<u>279 985</u>	<u>357 693</u>
	<u><u>\$1 909 584</u></u>	<u><u>\$1 254 439</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 4)	\$287 587	\$166 914
Deferred revenue	18 716	25 477
	<u>306 303</u>	<u>192 391</u>
CUMULATED SURPLUS	<u>1 603 281</u>	<u>1 062 048</u>
	<u><u>\$1 909 584</u></u>	<u><u>\$1 254 439</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Serge Tremblay
Chairman, Board of Directors

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS for the year ended June 30, 2008

1. CONSTITUTION AND PURPOSE

The École nationale des pompiers du Québec (School) is a legal person, governed by the *Fire Safety Act* (R.S.Q., c. S-3.4) and incorporated on September 1, 2000 to ensure that firefighters and other municipal fire safety personnel in Québec receive pertinent, high-quality, coherent qualifying professional fire-safety training.

Under its incorporating act, the School is a mandatory of the Gouvernement du Québec and, as such, does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires School management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the School's cash flows during the year.

Inventory

Inventories of books and textbooks are assessed at cost or net realization value, whichever is lower. Cost is determined using the specific identification method.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method.

Capital assets

Leasehold improvements	5 years
Computer equipment	3 years
Furniture and equipment	5 years
Other equipment	3 years

Intangible assets

Software	3 years

The School regularly examines its capital assets' book value, comparing it to the unrealized future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimating future cash flows and determining the fair value requires exercising professional judgement and may vary over time.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the School lacks sufficient information to apply the accounting procedure for defined-benefit plans.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended June 30, 2008

2. ACCOUNTING POLICIES (cont'd)

Revenue reporting

The Gouvernement du Québec subsidy is posted to revenues in the fiscal year in which the related expenses are incurred.

Revenues from training are posted when the following conditions are fulfilled:

- There is convincing evidence that an agreement exists;
- The service has been rendered;
- The service price has been, or can be, determined;
- Recovery is reasonably certain.

Future change in accounting policy

In the coming fiscal year, the School will apply the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations for Section 3031, "Inventories", Section 3855, "Financial Instruments", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

Sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements.

These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements. Section 3855 defines the standards for recognizing and measuring financial assets, liabilities and non-financial derivatives.

Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008.

Since sections 3862 and 3863 target specifically information to be disclosed, they will not affect the School's results. Management deems that applying the new standards in Sections 3855 will have no significant impact on its financial statements. Management is unable to determine the impact of applying the new standards in Sections 3031 and 3063 on its financial statements.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended June 30, 2008**3. CAPITAL ASSETS**

		2008		2007
	Cost	Accumulated depreciation	Net book value	Net book value
Capital assets				
Leasehold improvements	\$237 395	\$211 919	\$25 476	\$3 264
Computer equipment	100 633	78 930	21 703	18 231
Furniture and equipment	172 563	131 826	40 737	19 295
Other equipment	9 308	9 308		
	519 899	431 983	87 916	40 790
Intangible assets				
Software	419 922	227 853	192 069	316 903
	<u>\$939 821</u>	<u>\$659 836</u>	<u>\$279 985</u>	<u>\$357 693</u>

The School's capital asset acquisitions during the year totalled \$75 664 (2007: \$24 453) and its intangible asset acquisitions totalled \$3 752 (2007: \$337 500).

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities break down as follows:

	2008	2007
Accounts payable	\$107 170	\$14 285
Accrued liabilities	75 654	49 946
Salaries and fringe benefits payable	104 763	102 683
	<u>\$287 587</u>	<u>\$166 914</u>

5. FUTURE FRINGE BENEFITS**Pension plans**

School staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) and Pension Plan for Senior Officials (PPSO), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death. At January 1, 2008, the School's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPSO and PPMP from 7.78% to 10.54%.

The School's contributions charged to the year-end statement totalled \$54 269 \$ (2007: \$26 305). Its liability towards these Government plans is restricted to its employer contributions.

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the School is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The School did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended June 30, 2008

7. FINANCIAL INSTRUMENTS**Faire value**

Fair value is the amount of the consideration on which competent parties acting freely under fully competitive conditions agree on.

The fair value of short-term financial instruments equals their book value, given that they mature in the near future.

Credit risk

The School's credit risk exposure corresponds to the financial assets' book value. The School assesses these assets on an ongoing basis and posts a provision for losses when accounts are deemed uncollectible.

MANAGEMENT'S REPORT

The financial statements of the École nationale des pompiers du Québec (School) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The School recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the School's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Michel Richer
Director General

Laval, September 18, 2008

ÉCOLE NATIONALE DES POMPIERS DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the École nationale des pompiers du Québec as at June 30, 2008 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of School management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the School's financial position as at June 30, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 18, 2008

FINANCEMENT-QUÉBEC
(R.S.Q., c. F-2.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
NET INTEREST INCOME		
Interest on loans	643 229	602 250
Amortization of discounts and premiums on loans	591	639
Interest on borrowings and advances	(664 163)	(652 645)
Amortization of discounts and premiums on borrowings and advances	3 708	4 186
Interest on short-term investments	<u>28 850</u>	<u>47 536</u>
	----- 12 215	----- 1 966
OTHER OPERATIONS		
Net issuing costs charged to borrowers	6 554	6 935
Administration costs charged to borrowers	<u>2 865</u>	<u>2 242</u>
	----- 9 419	----- 9 177
	<u>21 634</u>	<u>11 143</u>
OPERATING AND ADMINISTRATIVE EXPENSES		
Wages, salaries and allowances	571	394
Professional, administrative and other services	21	51
Service agreement with the Financing Fund	372	756
Other	<u>56</u>	<u>26</u>
	<u>1020</u>	<u>1227</u>
SURPLUS FOR THE YEAR	20 614	9 916
OPENING CUMULATED SURPLUS	<u>84 245</u>	<u>74 329</u>
CLOSING CUMULATED SURPLUS	<u><u>104 859</u></u>	<u><u>84 245</u></u>

FINANCEMENT-QUÉBEC**STATEMENT OF FINANCIAL SITUATION**

As at March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Loans (Note 3)	14 288 807	13 397 751
Accrued interest on loans	<u>181 887</u>	<u>185 734</u>
	14 470 694	13 583 485
Cash on hand	48	7
Short-term investments (Note 4)	369 364	1 031 762
Accounts receivable	<u>848</u>	<u>791</u>
	<u>14 840 954</u>	<u>14 616 045</u>
LIABILITIES		
Borrowings (Note 5)	13 954 105	13 732 906
Consolidated Revenue Fund advances (Note 6)	602 005	614 460
Interest accrued on borrowings and advances	168 116	172 824
Accounts payable	715	363
Deferred revenue	<u>1 154</u>	<u>1 247</u>
	14 726 095	14 521 800
NET ASSETS		
Capital stock (Note 8)	100	100
Contributed surplus	9 900	9 900
Cumulated surplus	<u>104 859</u>	<u>84 245</u>
	<u>14 840 954</u>	<u>14 616 045</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Nathalie Parenteau, Executive Vice-President
 Bernard Turgeon, President and CEO

FINANCEMENT-QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Excess for the year	20 614	9 916
Adjustments for:		
Amortization of discounts and premiums on loans	(591)	(639)
Amortization of discounts and premiums on borrowings and advances	<u>(3 708)</u>	<u>(4 186)</u>
	----- 16 315	----- 5 091
Change in non-cash items related to operations:		
Accrued interest on loans	3 847	4 676
Accounts receivable	(57)	44
Accrued interest on borrowings and advances	(4 708)	(8 154)
Accounts payable	352	(270)
Deferred revenue	<u>(94)</u>	<u>(582)</u>
	----- (660)	----- (4 286)
Cash flows from operating activities	<u>15 655</u>	<u>805</u>
INVESTMENT ACTIVITIES		
Loans	(5 565 793)	(2 490 462)
Loan repayment	<u>4 675 328</u>	<u>1 189 352</u>
Cash flows for investment activities	<u>(890 465)</u>	<u>(1 301 110)</u>
FINANCING ACTIVITIES		
Short-term borrowings	11 994 167	12 301 282
Long-term borrowings	2 675 663	2 009 063
Repayment of advances from the Consolidated Revenue Fund	(8 848)	(395 561)
Repayment of long-term borrowings	(2 037 700)	(500 000)
Repayment of short-term borrowings	<u>(12 410 829)</u>	<u>(11 130 732)</u>
Cash flows from financing activities	<u>212 453</u>	<u>2 284 052</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(662 357)	983 747
OPENING CASH AND CASH EQUIVALENTS	<u>1 031 769</u>	<u>48 022</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 9)	<u>369 412</u>	<u>1 031 769</u>

The notes are an integral part of these financial statements.

FINANCEMENT-QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

Financement-Québec (financing authority), a legal person with partnership capital and an agent of the State, was created under the *Act respecting Financement-Québec* (R.S.Q., c. F-2.01), which came into effect on October 1, 1999, and is mandated to provide financial services to public agencies.

It finances them directly by granting them loans or issuing debt instruments on their behalf; advises them in order to facilitate their access to credit and minimize the cost of financing and, for this purpose, develops financing programs; may manage the financial risks of these agencies, notably cash flow risks and foreign exchange risks; and may also provide public agencies with technical services, notably related to financial analysis and management.

The financing authority charges borrowers loan flotation costs to offset those it incurs on borrowings and charges administration costs. The amounts charged are subject to Government approval.

Financement-Québec issues debt instruments that are guaranteed by the Gouvernement du Québec.

Financement-Québec does not pay Québec or Canadian income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the financing authority gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Short-term investments

Short-term investments are recorded at cost or market value, whichever is lower.

Consolidated Revenue Fund borrowings and advances

Consolidated Revenue Fund borrowings and advances are reported at the cash amount received when issued, adjusted by the amortization of the discount or premium over the duration of each security using the straight-line method, up to the amount of capital to be reimbursed at term.

Currency conversion

Borrowings in foreign currency and repayable in Canadian currency under swap agreements are determined at the exchange rate stipulated in these agreements.

Cash and cash equivalents

It is the financing authority's policy to present bank balances and investments that are easily convertible in the short term into a known amount of cash and whose value is unlikely to change significantly as cash and cash equivalents.

Derivative financial instruments

Financement-Québec uses derivative financial instruments to manage its exchange and interest-rate risks. It is the financing authority's policy not to use derivative financial instruments for transaction or speculation purposes.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Derivative financial instruments (cont'd)**

For transactions in foreign currencies, the financing authority duly documents all relations between hedging instruments and the elements hedged by attaching all of the derivative financial instruments used in the hedging operations for specific assets and liabilities shown in the balance sheet or statement of cash flows. The exchange risk management objective and strategy on which the different hedging operations are based are also documented. It also methodically determines, both for the implementation of the hedge and thereafter, whether the derivative instruments used in the hedging operations can effectively offset the changes in fair values of the elements hedged.

The gains and losses realized on the derivative instruments used by the financing authority are posted to the statement of operations at the same time as those related to the assets or liabilities hedged.

3. LOANS**Borrowers**

	March 31, 2009	March 31, 2008
School boards	4 734 271	4 794 388
Cegeps	1 386 049	1 542 037
Establishments and agencies of the health and social services network	5 526 629	4 833 570
Universities and other	2 641 858	2 227 756
	<u>14 288 807</u>	<u>13 397 751</u>

Maturity date
Fiscal year

2009		1 554 815
2010	1 882 000	1 682 352
2011	364 087	393 727
2012	1 949 738	2 010 104
2013	1 771 971	1 893 555
2014	3 055 243	2 588 684
2015 – 2034	5 265 768	3 274 514
	<u>14 288 807</u>	<u>13 397 751</u>

Loans maturing in the fiscal year ended March 31, 2010 include short-term loans of \$335 913 227. For long-term loans, the maturity dates and interest rates on the loans extended by the financing authority are, with certain exceptions, identical to those of the advances from the Consolidated Revenue Fund and borrowings acquired for this purpose, based on swap and interest-rate agreements, where applicable. However, given the amounts available, the financing authority may grant new loans from loan repayments. The interest rates and maturity dates of these new loans may differ from the advance or borrowing originally received. The balance of discounts and premiums to be amortized in subsequent years was \$4 638 at March 31, 2009.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

4. SHORT-TERM INVESTMENTS

	March 31, 2009	March 31, 2008
Notes	275 384	804 662
Deposit certificates	44 000	227 100
Commercial paper ¹	49 980	
Total	<u>369 364</u>	<u>1 031 762</u>

1 This is an investment issued by CDP Financière inc. and guaranteed by the Caisse de dépôt et de placement.

Short-term investment rates of return vary from 0.5% to 1.87%.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

5. BORROWINGS

Maturity date Fiscal year	March 31, 2009		March 31, 2008
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2009			2 276 050
2010	2 253 888	3.849 to 4.8683; variable ^{1,2}	1 500 000
2011	400 000	3.779 to 4.2075	400 000
2012	1 900 000	4.16 to 5.2764; variable ²	1 900 000
2013	1 020 000	4.134 to 5.0625	1 020 000
2014	3 656 000	3.135 to 5.123; variable ²	3 056 000
2015	1 857 000	3.0068 to 4.7203	1 000 000
2016	1 509 400	4.082 to 6.393	509 400
2035	590 900	4.877 to 5.58	349 900
	13 187 188		12 011 350
Plus: Swap agreements in Canadian currency	782 000		1 714 200
Plus (minus): Unamortized discounts and premiums	(15 083)		7 356
Total in Canadian currency	13 954 105		13 732 906
Repayable in US currency			
2013	782 000	5.391 to 5.82	782 000
Less: Swap agreements in Canadian currency	782 000		782 000
Total in US currency			
Repayable in Euros			
2009			932 200
Less: Swap agreements in Canadian currency			932 200
Total in Euros			
Total borrowings	<u>13 954 105</u>		<u>13 732 906</u>

Note: All of these borrowing are repayable only at maturity. Borrowings maturing in the fiscal year ended March 31, 2010 included short-term borrowings of \$753 888 275. All borrowings are underwritten by Québec.

1 Short-term borrowings bear interest at rates varying from 0.36511% to 1.43019%.

2 3-month bank acceptance rates plus a gap varying from -0.005% to +0.10%.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

6. CONSOLIDATED REVENUE FUND ADVANCES

Maturity date Fiscal year	March 31, 2009		March 31, 2008
	Amount	Rate (%)	Amount
Repayable in Canadian currency			
2009			5 000
2010	387 350	5.50 to 11.00	387 924
2012	61 360	9.5	62 894
2023	146 925	9.375	148 665
	595 635		604 483
Plus: Unamortized discounts and premiums	6 370		9 977
Total Consolidated Revenue Fund advances	602 005		614 460

The amounts of capital payments on Consolidated Revenue Fund advances over the next five fiscal years break down as:

<u>Fiscal year</u>	<u>Amount</u>
2010	390 624
2011	3 274
2012	60 032
2013	1 740
2014	1 740

7. FINANCIAL INSTRUMENTS

Financement-Québec uses fixed-rate swap agreements to manage interest-rate risks related to its financial intermediation activities. Interest-rate swap agreements give rise to periodic exchange of interest payments without exchange at the nominal reference amount on which the payments are based and are recorded as adjustment in interest expenses on the borrowing instrument covered. The volume of interest-rate swap agreements in Canadian currency at March 31, 2009 was \$16 921 million (March 31, 2008: \$17 047 million).

Financement-Québec also uses swap agreements to manage exchange risks related to certain borrowing instruments denominated in foreign currency. The financing authority designates swap agreements as coverage for its firm commitment to pay the interest and principal on the debt denominated in foreign currency, failing which it would be exposed to an exchange risk. The exchange gains and losses on the principal subject to swap agreements are offset by the corresponding exchange gains and losses on the debt denominated in foreign currency.

The fair value of Financement-Québec assets and liabilities at March 31, 2009 was assessed by capitalizing cash flows at market rates for similar fixed-rate securities. Swap and interest-rate agreements are used only for hedging purposes and are measured the same way as assets and liabilities.

FINANCEMENT-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(in thousands of dollars)

7. FINANCIAL INSTRUMENTS (cont'd)

	March 31, 2009		March 31, 2008	
	Book value	Fair value	Book value	Fair value
Borrowings and advances				
Borrowings	13 954 105	14 262 810	13 732 906	13 900 991
Consolidated Revenue Fund advances	602 005	671 293	614 460	704 317
Swap agreements		94 463		120 504
Interest-rate swap agreements		401 447		139 666
Total borrowings and advances	<u>14 556 110</u>	<u>15 430 013</u>	<u>14 347 366</u>	<u>14 865 478</u>
Loans				
Total loans	<u>14 288 807</u>	<u>15 067 761</u>	<u>13 397 751</u>	<u>13 886 223</u>

The value of other asset and liability financial instruments corresponds essentially to their book value, given their nature or the fact that they mature in the short term.

8. CAPITAL STOCK

Description

Authorized:

1 000 000 common shares with a
par value of \$100 each

Issued and fully paid:

1 000 common shares

\$100 000

The financing authority's shares are held by Québec's Minister of Finance.

9. CASH FLOWS

	March 31, 2009	March 31, 2008
Cash and cash equivalents		
Cash on hand	48	7
Short-term investments	<u>369 364</u>	<u>1 031 762</u>
	<u>369 412</u>	<u>1 031 769</u>

Interest paid by the financing authority during the fiscal year totalled \$678 020 061 (2008: \$655 312 807).

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the financing authority is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The financing authority did not do business with these related parties other than during the normal course of its activities and under normal business conditions. These transactions are not shown separately in the financial statements.

11. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009, notably for discounts and premiums on borrowings and Consolidated Revenue Fund advances.

FINANCEMENT-QUÉBEC

MANAGEMENT'S REPORT

The financial statements of Financement-Québec (financing authority) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The financing authority recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the financing authority's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Nathalie Parenteau
Executive Vice-President

Bernard Turgeon
President and CEO

Québec, June 4, 2009

FINANCEMENT-QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Financement-Québec as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of financing authority management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financing authority's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 4, 2009

FONDATION DE LA FAUNE DU QUÉBEC
(R.S.Q., c. C-61.1)

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
for the year ended March 31, 2009

	General Fund	
	2009	2008
REVENUES		
Contributions from fishermen, hunters and trappers	\$3 156 635	\$3 203 193
Fundraising (Note 4)	947 916	865 928
Other contributions (Note 4)	207 901	534 238
Interest	116 416	72 845
	<u>4 428 868</u>	<u>4 676 204</u>
EXPENSES (Note 5)		
Cost of wildlife projects	3 239 538	3 667 176
Fundraising expenses	526 163	502 260
Administrative expenses	594 797	564 558
	<u>4 360 498</u>	<u>4 733 994</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	68 370	(57 790)
OPENING FUND BALANCES	<u>978 382</u>	<u>1 036 172</u>
CLOSING FUND BALANCES	<u><u>\$1 046 752</u></u>	<u><u>\$978 382</u></u>

The notes are an integral part of these financial statements.

Capital Assets Fund		Dedicated Fund		Total	
2009	2008	2009	2008	2009	2008
				\$3 156 635	\$3 203 193
				947 916	865 928
\$41 700	\$854 671	\$1 858 533	\$288 881	2 108 134	1 677 790
7 296	23 045			123 712	95 890
48 996	877 716	1 858 533	288 881	6 336 397	5 842 801
60 529	896 894	218 113	118 202	3 518 180	4 682 272
				526 163	502 260
				594 797	564 558
60 529	896 894	218 113	118 202	4 639 140	5 749 090
(11 533)	(19 178)	1 640 420	170 679	1 697 257	93 711
1 302 658	1 321 836	789 296	618 617	3 070 336	2 976 625
\$1 291 125	\$1 302 658	\$2 429 716	\$789 296	\$4 767 593	\$3 070 336

FONDATION DE LA FAUNE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009				2008
	General Fund	Capital Assets Fund	Dedicated Fund	Total	Total
ASSETS					
Current assets					
Cash on hand	\$12 216	\$9 305		\$21 521	\$33 804
Redeemable term deposits (average rate of 2.88%)	3 364 712	163 999		3 528 711	1 669 000
Accounts receivable (Note 6)	229 949	20 356		250 305	513 813
Accrued interest	3 722	203		3 925	60 098
Inventory	24 687			24 687	24 255
Interfund receivables, interest-free no encashment terms			\$2 429 716		
Prepaid expenses	16 400	4 317		20 717	49 907
Contributions receivable (Note 7)		79 628		79 628	159 670
	3 651 686	277 808	2 429 716	3 929 494	2 510 547
Contributions receivable (Note 7)		82 343		82 343	200 170
Investments (Note 8)	400 000			400 000	400 000
Capital assets (Note 9)	186 808	1 218 298		1 405 106	1 397 181
	<u>\$4 238 494</u>	<u>\$1 578 449</u>	<u>\$2 429 716</u>	<u>\$5 816 943</u>	<u>\$4 507 898</u>
LIABILITIES					
Current liabilities					
Account payable and accrued liabilities	\$579 175			\$579 175	\$791 352
Interfund receivables, interest-free no encashment terms	2 429 716				
Deferred contributions and other amounts collected in advance (Note 11)	182 851	\$125 353		308 204	286 370
Instalment on bank borrowings		79 628		79 628	159 670
	3 191 742	204 981		967 007	1 237 392
Bank borrowings (Note 12)		82 343		82 343	200 170
	3 191 742	287 324		1 049 350	1 437 562
FUND BALANCE					
Invested in capital assets	186 808	1 218 298		1 405 106	1 397 181
Amounts allocated to wildlife projects :					
Balance committed (Note 13)	859 944	30 500	\$37 878	928 322	853 163
External allocation balance		42 327	2 391 838	2 434 165	819 992
	1 046 752	1 291 125	2 429 716	4 767 593	3 070 336
	<u>\$4 238 494</u>	<u>\$1 578 449</u>	<u>\$2 429 716</u>	<u>\$5 816 943</u>	<u>\$4 507 898</u>

DEPOSITS – WILDLIFE PROJECTS (Note 10)**COMMITMENTS** (Note 14)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Gauthier, President
Marie Lamontagne, Treasurer

FONDATION DE LA FAUNE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009				2008
	General Fund	Capital Assets Fund	Dedicated Fund	Total	Total
OPERATING ACTIVITIES					
Receipts					
Contributions - users, partners, clients and members	\$4 195 676	\$4 320	\$620 309	\$4 820 305	\$4 399 397
Government and municipalities contributions	361 574	269 793	1 238 224	1 869 591	806 131
Interest earned	166 794	13 091		179 885	78 607
Disbursements					
Contributions to projects	(2 789 641)	(21 540)	(218 113)	(3 029 294)	(3 570 673)
Suppliers and staff members	(1 720 611)	(40 318)		(1 760 929)	(1 712 692)
Interest paid	(4 137)			(4 137)	(2 967)
Net fund (outflows) inflows	<u>209 655</u>	<u>225 346</u>	<u>1 640 420</u>	<u>2 075 421</u>	<u>(2 197)</u>
INVESTMENT ACTIVITIES					
Revenue from capital asset sale	2 000			2 000	11 536
Acquisition of capital assets	(32 074)	(50)		(32 124)	(13 229)
Net funds outflows	<u>(30 074)</u>	<u>(50)</u>		<u>(30 124)</u>	<u>(1 693)</u>
FINANCING ACTIVITIES					
Increase in term deposits	(2 429 716)			(2 429 716)	
New borrowings		31 375		31 375	200 170
Repayment of borrowings		(229 244)		(229 244)	(151 600)
Net funds (outflows) inflows	<u>(2 429 716)</u>	<u>(197 869)</u>		<u>(2 627 585)</u>	<u>48 570</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2 250 135)</u>	<u>27 427</u>	<u>1 640 420</u>	<u>(582 288)</u>	<u>44 680</u>
OPENING CASH AND CASH EQUIVALENTS	<u>1 556 927</u>	<u>145 877</u>		<u>1 702 804</u>	<u>1 658 124</u>
Interfund receivables	<u>1 640 420</u>		<u>(1 640 420)</u>		
CLOSING CASH AND CASH EQUIVALENTS*	<u>\$947 212</u>	<u>\$173 304</u>		<u>\$1 120 516</u>	<u>\$1 702 804</u>

* Cash and cash equivalents include cash and unappropriated term deposits of \$1 098 995 that the Foundation can use for current operations.

The notes are an integral part of these financial statements.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION, PURPOSE AND FUNDING

The Fondation de la faune du Québec (Foundation), a non-profit corporation, was established under the *Act respecting the conservation and development of wildlife* (R.S.Q., c. C-61.1) to promote wildlife and wildlife habitat the conservation and development.

The Foundation is recognized as a charitable organization under provincial and federal tax legislation and does not pay income tax.

A contribution toward Foundation funding, in an amount determined by Government regulation, is charged on fishing, hunting and trapping licences issued and is paid to the Foundation by the Ministère des Ressources naturelles et de la Faune.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management has used estimates and assumptions is the service life of capital assets. Real results may differ from these estimates.

The Foundation uses the fund accounting method to record contributions.

The Foundation's current operations are included in the General Fund.

The Capital Assets Fund records operations related to the acquisition of land, development rights and facilities for wildlife habitat protection purposes. The Fund's net assets are reserved for the acquisition of capital assets for the Foundation or third parties and for payment of related expenses. These capital assets may not be disposed of, in whole or in part, without the consent of the partners who contributed to their purchase. This fund is therefore a designated fund.

The Dedicated Fund represents operations resulting from a regionally-dedicated funds management agreement signed with the Ministère des Ressources naturelles et de la Faune and specific dedicated funds agreements signed with other partners. Under these agreements, the Foundation received contributions entailing restrictions for habitat projects. This fund is therefore a designated fund.

Contribution reporting

Contributions designated for capital assets and dedicated funds are reported as revenues for the appropriate designated fund. Other designated contributions, for which there is no distinct fund, are reported as revenues in the General Fund in the fiscal year in which the related expenses are incurred.

The Foundation receives various assets free of charge. Since management was unable to arrive at a reasonable estimate of the fair value of these contributions, they have not been reported in the financial statements.

Non-designated contributions are posted to revenue in the year in which they are made.

Gain reporting

Interest income is reported based on the number of days the investment is held during the fiscal year. Other revenues are reported when received or invoiced by the Foundation.

Financial instruments

Initial measurement

Financial instruments are reported at their fair value on the date of the transaction.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2009**2. ACCOUNTING POLICIES** (cont'd)**Financial instruments** (cont'd)*Fair value*

The fair value of financial instruments is the amount of the consideration decided on by competent parties acting freely under fully competitive conditions.

Categories of financial instruments and subsequent measurement*Assets and liabilities held for transaction purposes*

The assets and liabilities held for transaction purposes are financial instruments acquired or transferred primarily for resale or repurchase in the short term. They include assets and liabilities not respecting the above-mentioned criteria but irrevocably designated by the Foundation as held for transaction purposes.

The assets and liabilities held for transaction purposes are measured at their fair value and the gains and losses resulting from their reassessment at fair value are posted to operations, where applicable.

The Foundation also irrevocably designated the following short-term financial instruments as held for transaction purposes: term deposits, accounts receivable, accrued interest, accounts payable and accrued liabilities.

Assets held until maturity

Assets held until maturity are non-derivative financial assets other than loans and receivables, whose payment is, or can be, determined until they reach maturity. They are subsequently measured at cost and amortized using the effective interest-rate method, where applicable. Interest generated is included under interest income. The Foundation has classified investments and contributions receivable in this category.

Other financial liabilities

Other financial liabilities include all non-derivative liabilities not classified as being held for transaction purposes. They are measured at cost, after amortization using the effective interest-rate method, where applicable. This measurement corresponds to the cost. The Foundation has classified bank borrowings in this category.

Permanent decline in value of financial assets

For financial assets held until maturity, the Foundation determines whether there is an objective indication of their depreciation. If so, the amount that can be recovered is calculated. If it is lower than the assets' book value, a loss for depreciation is posted in the statement of operations.

Inventories

Inventories are assessed at cost or net realization value, whichever is lower. Cost is calculated in accordance with the first in, first out (FIFO) method.

Capital assets*Equipment*

Equipment is posted at cost and amortized over its estimated service life in accordance with the straight-line method at rates of 20% and 33 1/3%.

FONDATION DE LA FAUNE DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Capital assets (cont'd)***Works of art*

Works of art—primarily wildlife paintings—are posted at cost, except for those which are donated or received in exchange for services rendered, which are posted, on the acquisition date, at their market value established by an independent expert. They are not amortized.

Land

Land is posted at cost, except donated land, which is posted, on the date of acquisition, at its market value established by an independent expert or a municipal assessment value.

Development rights

Development rights held under acts of servitude for wildlife are posted at cost. They are not amortized.

Cash and cash equivalents

It is the Foundation's policy to present cash on hand, bank overdraft and term deposits that are easily convertible in the short term into a known amount of cash whose value should not change significantly and for which no appropriation is linked under cash and cash equivalents.

Pension plans

The Foundation participates in inter-enterprise Government defined-benefits plans. Since it lacks sufficient information to apply the accounting procedure for defined-benefit plans, the Foundation applies the accounting procedure for defined-contribution plans.

3. CHANGES IN ACCOUNTING POLICIES**Adoption of accounting policies**

On April 1, 2009, the Fondation de la faune du Québec adopted Section 1535, *Capital Disclosures*. Its adoption of these new standards did not result in a change in the accounting treatment of the Foundation's operations but did add information to the financial statements, as disclosed in Note 15.

On the same date, the Foundation also adopted the new standards of Section 3031, *Inventories*, which requires that inventories be reported at the lower of cost or net realizable value and requires reversal of write-downs to net realizable value when there is a subsequent increase in the net realizable value of inventories. The adoption of this standard had no impact on the financial statements.

During the fiscal year, the Foundation prospectively applied the Canadian Institute of Chartered Accountants' (CICA) new recommendations for the recognition, measurement and disclosure of financial information for not-for-profit organization contained in the Section 4400 series and Section 1540 of the *CICA Handbook*. The Foundation's adoption of these new standards resulted in minor changes in the presentation of the cash flow statement.

Future adoption of accounting policies

Not-for-profit organizations can choose to defer adoption of sections 3862 and 3863, so that they apply to fiscal years beginning on or after October 1, 2009, and continue applying Section 3861 in the meantime. The Foundation decided to defer application of these standards.

Management believes that these new standards will have a minor impact on presentation of the Foundation's financial information.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. FUNDRAISING AND OTHER CONTRIBUTIONS

	2009				2008
	<u>Fundraising</u>	<u>Other contributions</u>		<u>Total</u>	<u>Total</u>
	<u>General Fund</u>	<u>General Fund</u>	<u>Capital Assets Fund</u>	<u>Dedicated Fund</u>	
Governments and municipalities	\$309 297	\$24 527	\$33 870	\$1 238 224	\$1 605 918
Enterprises	388 604	172	6 000	596 636	991 412
Individuals	200 160	6 251		7 208	213 619
Foundations and NPOs	49 855	176 951	1 830	16 465	245 101
	<u>\$947 916</u>	<u>\$207 901</u>	<u>\$41 700</u>	<u>\$1 858 533</u>	<u>\$3 056 050</u>
					<u>\$2 543 718</u>

5. EXPENSES**GENERAL FUND**

	<u>2009</u>	<u>2008</u>
Wildlife project costs		
Contributions:		
Habitat-related projects	\$1 529 894	\$1 773 985
Fishing-related projects and projects related to the next generation * ***	657 636	525 830
Projects related to wildlife partners	266 485	290 697
Foundation projects ** ****	134 952	435 355
Salaries and fringe benefits	554 892	549 290
Professional fees	1 440	840
Travelling expenses	9 621	10 874
Meetings, conferences and professional development	3 261	3 800
Advertising and promotional expenses ***	66 985	60 117
Printing and supplies	9 629	11 507
Amortization of capital assets	4 743	4 881
	<u>\$3 239 538</u>	<u>\$3 667 176</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. EXPENSES (cont'd)

GENERAL FUND (cont'd)

	2009	2008
Fundraising expenses		
Salaries and fringe benefits	\$311 888	\$316 786
Professional fees ***	18 567	20 809
Commissions and royalties	6 455	7 808
Purchase of goods	18 219	12 288
Travelling expenses	10 104	9 089
Meetings, conference and professional development	9 670	3 078
Meals / benefits (events)	24 107	12 399
Advertising and promotional expenses ***	93 703	72 248
Printing and supplies	18 495	26 180
Amortization of capital assets	4 800	5 537
Other	10 155	16 038
	<u>\$526 163</u>	<u>\$502 260</u>
Administrative expenses		
Salaries and fringe benefits	\$386 039	\$374 026
Professional fees	31 738	18 822
Travelling expenses	22 092	17 511
Meetings, conference and professional development	4 997	8 290
Advertising and promotional expenses	4 700	4 901
Rent	99 920	99 111
Printing and supplies	28 432	27 927
Amortization of capital assets	6 412	5 676
Other	10 467	8 294
	<u>\$594 797</u>	<u>\$564 558</u>

* In 2007-2008, an amount of \$12 089 for the purchase of fishing rods and the corresponding revenue was not disclosed given that these purchases were made for other organizations. In 2008-2009, this situation did not arise.

** Includes \$6 995 (2008: \$71 553) for professional fees, employee wages and fringe benefits of \$86 616 (2008: \$48 815).

*** These items include amortization costs as follows:

	2009	2008
Fishing-related projects and projects related to the next generation	\$570	\$401
Foundation projects	724	362
Wildlife projects / advertising and promotion expenses	3 821	3 821
Professional fees	3 300	3 300
Fundraising / advertising and promotion expenses	3 821	3 821
	<u>\$12 236</u>	<u>\$11 705</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. EXPENSES (cont'd)****CAPITAL ASSETS FUND**

	<u>2009</u>	<u>2008</u>
Wildlife project costs		
Contributions:		
Land acquisition and protection projects	\$20 449	\$843 323
Indirect costs:		
Salaries and fringe benefits	10 531	10 666
Professional fees	967	11 938
Advertising and promotional expenses	3 660	4 983
Land management	13 520	13 555
Interest on bank borrowings	11 402	11 973
Travelling expenses and other		456
	<u>\$60 529</u>	<u>\$896 894</u>

DEDICATED FUND

	<u>2009</u>	<u>2008</u>
Wildlife project costs		
Contributions :		
Habitat-related projects	<u>\$218 113</u>	<u>\$118 202</u>

6. ACCOUNTS RECEIVABLE

Accounts receivable include \$21 856 (2008: \$96 182) owed by Gouvernement du Québec departments and agencies.

7. CONTRIBUTIONS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Ministère du Développement durable, de l'Environnement et des Parcs:		
– For the repayment of bank borrowings (Note 12)	\$161 971	\$359 840
– Minus: amount receivable in the next fiscal year	<u>79 628</u>	<u>159 670</u>
	<u>\$82 343</u>	<u>\$200 170</u>

8. INVESTMENTS

The investment is reported at cost. This term deposit matures on December 31, 2010 and bears interest at 4.64% (2008: average rate of 4.3%). Given that the investment is the collateral for the bank credit line, it is renewed upon maturity.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**9. CAPITAL ASSETS**

	2009		2008
	Cost	Accumulated depreciation	Net value
General Fund			
Equipment	\$158 432	\$116 629	\$41 803
Works of art	145 005		140 005
	<u>303 437</u>	<u>116 629</u>	<u>186 808</u>
Capital Assets Fund			
Land	1 166 658		1 160 608
Development right	51 640		51 640
	<u>1 218 298</u>		<u>1 212 248</u>
	<u>\$1 521 735</u>	<u>\$116 629</u>	<u>\$1 405 106</u>

Depreciation for the year totals \$28 192 (2008: \$27 799).

In keeping with its wildlife habitat protection property policy, the Foundation intends to transfer, free of charge, the property titles it holds in order to protect wildlife habitats there. These properties will be transferred relatively soon to local organizations, which will be responsible for their ongoing protection. The cost of these properties is posted to expenses for the fiscal year in which they are transferred.

During the fiscal year, the Foundation received a gift of land whose value is \$6 000.

10. DEPOSITS – WILDLIFE PROJECTS

The Foundation holds funds on behalf of certain agencies for special projects in which it is not involved. The balance of these funds comprising cash, term deposits, accounts receivable, accrued interest and related operations is not included in the Foundation's financial statements.

	2009	2008
Opening fund balance	\$313 338	\$462 299
Deposits and interest earned	1 455 939	207 921
Disbursements and administrative costs	(1 584 701)	(358 015)
Increase (decrease) in accrued interest	<u>(7 868)</u>	<u>1 133</u>
Closing fund balance	<u>\$176 708</u>	<u>\$313 338</u>

11. DEFERRED CONTRIBUTIONS AND OTHER AMOUNTS COLLECTED IN ADVANCE**General Fund**

Deferred contributions comprise sponsorships received for a benefit held in Montréal on April 1, 2009 (\$10 500), appropriated gifts (\$120 672) and net profits from Encan faune et nature 2009 (\$51 679).

Capital Assets Fund

Other amounts collected in advance are amounts received from the Ville de Québec for the acquisition of natural environments that will subsequently be transferred to it. These amounts will have to be repaid to the Ville de Québec if they are unused at the end of the agreement in March 2010.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. DEFERRED CONTRIBUTIONS AND OTHER AMOUNTS COLLECTED IN ADVANCE (cont'd)****Capital Assets Fund (cont'd)**

	2009	2008
Opening balance	\$139 625	\$500 000
Amounts collected in advance during the fiscal year		200 000
Amounts used during the fiscal year	(14 272)	(560 375)
Closing balance	<u>\$125 353</u>	<u>\$139 625</u>

12. BANK BORROWINGS**Capital Assets Fund**

	2009	2008
Borrowing, bearing interest at a fixed rate of 4.96%, repayable in monthly instalments of \$6 856, maturing in April 2009	\$200	\$80 290
Borrowing, bearing interest at a fixed rate of 4.91%, repayable in monthly instalments of \$1 594, maturing in April 2009	4	18 632
Borrowing, bearing interest at a fixed rate of 4.82%, repayable in monthly instalments of \$1 340, maturing in April 2009	2	15 666
Borrowing, bearing interest at a fixed rate of 4.71%, repayable in monthly instalments of \$2 248, maturing in April 2009	93	26 382
Borrowing, bearing interest at a fixed rate of 5.175%, repayable in monthly instalments of \$1 593, maturing in April 2009	117	18 700
Borrowing, bearing interest at a fixed rate of 3.87%, repayable in monthly instalments of \$7 006 including interest, maturing in March 2011	<u>161 555</u>	<u>200 170</u>
	161 971	359 840
Minus: Payment of bank borrowings in the short term	<u>79 628</u>	<u>159 670</u>
	<u>\$82 343</u>	<u>\$200 170</u>

Under the program for the development of a network of protected areas, the Ministère du Développement durable, de l'Environnement et des Parcs committed to repaying in full the capital and interest on the above-mentioned borrowings directly to the financial institution concerned. These repayments are posted as contributions receivable (Note 7).

13. ALLOCATIONS FOR WILDLIFE PROJECTS**General Fund**

The Foundation has committed to paying \$1 843 167 (2008: \$1 574 146) as financial assistance for various wildlife projects, with payments breaking down as:

2010	\$1 637 367
2011	130 800
2012	25 000
2013	<u>50 000</u>
	<u>\$1 843 167</u>

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. ALLOCATIONS FOR WILDLIFE PROJECTS (cont'd)**General Fund (cont'd)**

At March 31, 2009, the financial assistance contracts signed represented \$1 042 970 of the total amount committed.

The Foundation allocated \$859 944 to meet its commitments.

Capital Assets Fund

The Foundation committed to paying \$30 500 (2008: \$15 000) for the management of properties to be used for wildlife purposes by 2010.

Dedicated Fund

The Foundation committed to paying \$37 878 (2008: \$44 714) in financial assistance for various wildlife projects in 2010.

14. COMMITMENTS

The Foundation is committed under a renewable long-term lease expiring on November 30, 2015. The minimum lease payments for the coming fiscal years are:

2010	\$101 537
2011	104 244
2012	104 921
2013	106 274
2014	107 241
2015 and thereafter	<u>181 803</u>
	<u><u>\$706 020</u></u>

15. INFORMATION REGARDING CAPITAL

The Foundation manages various subsidies and gifts for which outside appropriations specify the conditions to meet to use these financial resources. The Foundation has complied with the requirements of these appropriated contributions.

16. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Foundation is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Foundation did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

17. FUTURE FRINGE BENEFITS**Pension plan**

Foundation staff participates in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan for Senior Officials (PPSO), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2009, the Foundation's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPSO also remained 10.54%.

The Foundation's contributions charged to the year-end statement totalled \$74 896 (2008: \$62 855). Its liability towards these Government plans is restricted to its employer contributions.

FONDATION DE LA FAUNE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

18. FINANCIAL INSTRUMENTS**Bank credit line**

At March 31, 2009, the Foundation had an annually-renewable \$500 000 bank credit line guaranteed by investments. The amounts used bear interest at the prime rate minus 1%, which represented 1.5% at the date of the balance sheet (2008: 3.25%). At March 31, 2008 and 2009, the balance was zero.

Fair value

The following methods and assumptions were used to estimate the fair value of the balance sheet's financial instruments.

The cost of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

The fair value of investments and bank borrowings is estimated by actualizing future cash flows at current market interest rates for similar investment agreements. At March 31, 2009, the fair value of investments was \$422 085 (2008: \$412 598) and bank borrowings, \$168 051 (2008: \$363 706).

The fair value of contributions receivable cannot be estimated, given the absence of a market for this type of financial instrument.

Credit risk

In the normal course of its operations, the Foundation monitors its accounts receivable—approximately 50% of which involve a single debtor. Cash and term deposits are invested with top-notch financial institutions. Foundation management does not believe that it is exposed to a higher-than-normal risk level for these monetary assets.

Interest rate risk

Bank borrowings bear interest at fixed rates. Given that the Foundation foresees repaying these borrowings in full at term, the risk to which it is exposed are minimal. Furthermore, the interest on these borrowings is reimbursed by the Ministère du Développement durable, de l'Environnement et des Parcs.

FONDATION DE LA FAUNE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Fondation de la Faune du Québec (Foundation) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Foundation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Foundation's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

André Martin
President and Chief Executive Officer

Québec, May 14, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fondation de la faune du Québec as at March 31, 2009 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Foundation management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Foundation's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 14, 2009

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE
(R.S.Q., c. S-4.01)

STATEMENT OF OPERATIONS
for the year ended December 31, 2008
(UNAUDITED)

	2008	2007
REVENUES		
Contributions from funds established in detention centres	\$128 275	\$65 939
Interest on loans	4 403	4 947
Interest on bank deposits	526	2 733
Interest on investments	30 848	35 587
Dividends on mutual fund units	5 679	17 718
	<u>169 731</u>	<u>126 924</u>
EXPENSES		
Professional fees	75 580	72 936
Travel	18 946	17 948
Office expenses	7 597	8 864
Amortization of capital assets	296	370
Gift to funds established in detention centres	53 666	62 086
	<u>156 085</u>	<u>162 204</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$13 646</u>	<u>\$(35 280)</u>

The notes are an integral part of these financial statements.

CHANGE IN NET ASSETS
for the year ended December 31, 2008
(UNAUDITED)

	Invested in capital assets	Un- appropriated	2008	2007
OPENING FUND BALANCE	\$1 480	\$1 766 310	\$1 767 790	\$1 744 185
Excess (deficiency) of revenues over charges	(296)	13 942	13 646	(35 280)
Increase (decrease) in fund balance	<u>1 240</u>	<u>(1 240)</u>		
	<u>2 424</u>	<u>1 779 012</u>	<u>1 781 436</u>	<u>1 708 905</u>
Unrealized gains for previous periods		58 885	58 885	48 143
Unrealized gains (losses) for the period considered		<u>(151 224)</u>	<u>(151 224)</u>	<u>10 742</u>
Cumulated unrealized gains (losses) (Note 7)		<u>(92 339)</u>	<u>(92 339)</u>	<u>58 885</u>
CLOSING FUND BALANCE	<u>\$2 424</u>	<u>\$1 686 673</u>	<u>\$1 689 097</u>	<u>\$1 767 790</u>

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

BALANCE SHEET
as at December 31, 2008
(UNAUDITED)

	2008	2007
ASSETS		
Current assets		
Cash on hand	\$59 987	\$41 948
Accounts receivable (Note 3)	141 560	107 825
Prepaid expenses	17 701	17 324
Loans – short-term portion (Note 4)	37 143	34 070
	<u>256 391</u>	<u>201 167</u>
INVESTMENTS AND LOANS		
Loans (Note 4)	346 724	383 867
Investments (Note 5)	1 084 358	1 182 286
Capital assets (Note 6)	2 424	1 480
	<u>1 433 506</u>	<u>1 567 633</u>
	<u>\$1 689 897</u>	<u>\$1 768 800</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$800	\$1 010
	<u>800</u>	<u>1 010</u>
NET ASSETS		
Invested in capital assets	2 424	1 480
Unappropriated	1 686 673	1 766 310
	<u>1 689 097</u>	<u>1 767 790</u>
	<u>\$1 689 897</u>	<u>\$1 768 800</u>

TRUSTEE OR PERSON REPRESENTING TRUSTEE,
Brigitte Portelance, Deputy Minister responsible for Correctional Services

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

STATEMENT OF CASH FLOWS
for the year ended December 31, 2008
(UNAUDITED)

	2008	2007
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$13 646	\$(35 280)
Adjustments for:		
Interest on bonds and guaranteed deposits	4 182	6 148
Amortization of capital assets	296	370
Dividends on mutual fund units	(5 679)	(17 718)
	<u>12 445</u>	<u>(46 480)</u>
Variation in non-cash items related to operations:		
Acquisition of moveables	(1 240)	(1 850)
Loan encashment	34 070	33 528
New loans		(60 000)
Accounts receivable	(33 736)	(35 175)
Prepaid expenses	(377)	2 388
Accounts payable and accrued liabilities	(210)	(1 632)
	<u>(1 492)</u>	<u>(62 741)</u>
Cash flows from (for) operating activities	<u>10 953</u>	<u>(109 221)</u>
INVESTMENT ACTIVITIES		
Acquisition of short-term investments	(204 536)	65 000
Acquisition of investments	(20 825)	(24 455)
Revenue from sale of investments	<u>232 447</u>	
Cash flows from investment activities	<u>7 086</u>	<u>40 545</u>
INCREASE (DECREASE) IN CASH POSITION	18 039	(68 676)
OPENING CASH POSITION	<u>41 948</u>	<u>110 624</u>
CLOSING CASH POSITION	<u><u>\$59 987</u></u>	<u><u>\$41 948</u></u>

The notes are an integral part of these financial statements.

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008

(UNAUDITED)

1. CONSTITUTION, PURPOSE AND FINANCING

The Fonds central de soutien à la réinsertion sociale (Central fund), established under the *Act respecting the Québec correctional system* (R.S.Q., c. S-4.01), formerly the *Act respecting correctional services*, is a social trust patrimony that provides gifts or loans, with or without interest, to support funds established in correctional facilities in financial difficulty. The Central fund is composed of the contributions paid pursuant to section 94 by the funds established in correctional facilities; other sums of money from sources that may be determined by regulation; and the interest earned on the sums of money making up the fund. The contribution collected for the Central fund by each detention centre's social reintegration support fund is determined by the Minister within the limits set by Government regulation, and may differ for each fund.

Under the applicable income tax legislation, the Fonds central de soutien à la réinsertion sociale does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Short-term investments

Short-term investments are reported using the lower of cost or market method (cost-net realization value).

Capital assets

Capital assets are posted at cost and amortized using their service life and the straight-line method.

	<u>Service life</u>
Computer equipment	5 years
Office equipment	5 years

Financial instruments

The Central fund's financial instruments comprise investments, accounts receivable, suppliers and loans. Unless otherwise indicated, management considers that the Central fund is not exposed to significant interest rate, exchange or credit risks resulting from these financial instruments. Unless otherwise indicated, instruments' fair value resembles their book value.

In keeping with Section 3855, "Financial Instruments – Recognition and Measurement," of the Canadian Institute of Chartered Accountant's (CICA) Handbook, the Central fund has designated all mutual fund investments, when no notable influence is exercised, as investments available for sale and has shown them at fair value. This is a change in accounting policy whose effects are disclosed in Note 7.

3. ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Contributions receivable	\$125 000	\$64 000
Advances to funds established in detention centres	683	39 874
Accrued interest	15 877	3 951
	<u>\$141 560</u>	<u>\$107 825</u>

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2008

(UNAUDITED)

4. LOANS

	2008	2007
Sherbrooke – interest-free, cashable in monthly instalments of \$1 309.80, maturing in 2021 *	\$193 851	\$209 569
Maison Tanguay – interest-free, no payments for the first two years. Monthly instalments of \$833.33 beginning in October 1, 2009	60 000	60 000
Trois-Rivières – bearing interest at 5.5%, cashable in monthly instalments of \$1 217 (principal and interest), maturing in 2015 *	75 349	85 501
New-Carlisle – interest-free, cashable in monthly instalments of \$683, maturing in 2015 *	54 667	62 867
	383 867	417 937
Payments receivable in the coming fiscal year	(37 143)	(34 070)
	<u>\$346 724</u>	<u>\$383 867</u>

* The interest rate, terms and conditions of repayment are re-evaluated annually on the loan's anniversary date.

5. INVESTMENTS

	2008	2007
Term deposits		
Term deposit, interest at 3.11%, maturing September 16, 2009	\$32 059	\$60 000
Term deposit, interest at 4.67%, maturing September 16, 2009	200 000	200 000
Term deposit, interest at 4.25%, maturing July 21, 2009	172 477	
	404 536	260 000
Bonds		
Gouvernement du Québec, at rates varying from 3.9% to 4.5%, maturing up to February 2009	324 815	474 428
Long-term accrued interest	11 315	17 506
	336 130	491 934
Mutual fund (see Note 7)	343 692	430 352
	<u>\$1 084 358</u>	<u>\$1 182 286</u>

6. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated amortization	Net
Office equipment	\$3 300	\$3 300	
Computer equipment	10 373	7 949	\$2 424
	<u>\$13 673</u>	<u>\$11 249</u>	<u>\$2 424</u>
			<u>\$1 480</u>

FONDS CENTRAL DE SOUTIEN À LA RÉINSERTION SOCIALE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 December 31, 2008
 (UNAUDITED)

7. FINANCIAL INSTRUMENTS

As of 2007, in keeping with the recommendations of Section 3855, "Financial Instruments – Recognition and Measurement", of the Canadian Institute of Chartered Accountant's (CICA) Handbook, the Central fund has designated mutual fund investments as investments available for sale and has shown them at fair value.

	<u>2008</u>	<u>2007</u>
Mutual funds		
Previous value	\$430 352	\$353 749
Amounts reinvested	5 679	17 718
Unrealized gains (losses)	<u>(92 339)</u>	<u>58 885</u>
	<u>\$343 692</u>	<u>\$430 352</u>

REVIEW ENGAGEMENT REPORT

Brigitte Portelance, Deputy Minister responsible for Correctional Services

I have examined the balance sheet of the Fonds central de soutien à la réinsertion sociale at December 31, 2008 and the statements of operations, change in net assets and cash flows for the fiscal year then ended. I conducted my examination in accordance with Canadian generally accepted examination standards, which entailed essentially in gathering data, conducting analytical processes and discussing the information supplied by the Central fund.

Since an examination is not an audit, I have not expressed an auditor's opinion on these financial statements.

During my examination, I found nothing leading me to believe that these financial statements do not comply, in all significant aspects, with Canadian generally recognized accounting principles.

Kevin Parent
 Certified General Accountant

Beloeil, March 30, 2009

FONDS D'AIDE AUX RECOURS COLLECTIFS
(R.S.Q., c. R-2.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Gouvernement du Québec subsidy	\$719 900	\$719 900
Subrogations	529 086	272 962
Balances on class actions and settled claims	1 031 301	34 064
Interest	123 975	136 683
	<u>2 404 262</u>	<u>1 163 609</u>
EXPENSES		
Assistance to recipients (Note 4)	2 146 067	1 424 706
Board of Directors' expenses:		
Fees and fringe benefits	34 075	35 089
Travelling and promotional expenses	12 265	3 873
	<u>46 340</u>	<u>38 962</u>
Administrative expenses:		
Salaries and fringe benefits	236 143	217 590
Professional and administrative services	35 371	32 256
Rent	30 986	30 725
Courier and communications	10 594	8 288
Materials and supplies	2 525	2 875
Maintenance and repairs	631	481
Other expenses	1 747	785
	<u>317 997</u>	<u>293 000</u>
	<u>2 510 404</u>	<u>1 756 668</u>
DEFICIT FOR THE FISCAL YEAR	(106 142)	(593 059)
OPENING CUMULATED SURPLUS	<u>3 098 475</u>	<u>3 691 534</u>
CLOSING CUMULATED SURPLUS	<u>\$2 992 333</u>	<u>\$3 098 475</u>

SEGMENTAL REPORTING (Note 5)

The notes are an integral part of these financial statements.

FONDS D'AIDE AUX RECOURS COLLECTIFSBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$116 915	\$80 916
Short-term investments – at cost (Note 6)	523 680	2 119 440
Accrued interest	53 053	108 552
Prepaid expenses	889	898
	<u>694 537</u>	<u>2 309 806</u>
Investments - at cost (Note 6)	<u>2 477 791</u>	<u>873 000</u>
	<u>\$3 172 328</u>	<u>\$3 182 806</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$116 693	\$39 308
Provision for vacation time	21 923	20 548
	<u>138 616</u>	<u>59 856</u>
Provision for sick leave (Note 9)	<u>41 379</u>	<u>24 475</u>
	<u>179 995</u>	<u>84 331</u>
CUMULATED SURPLUS (Note 7)		
Maintenance of liquid assets	300 000	300 000
Coverage of commitments	2 692 333	2 798 475
	<u>2 992 333</u>	<u>3 098 475</u>
	<u>\$3 172 328</u>	<u>\$3 182 806</u>
COMMITMENTS (Note 8)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
M^e Jacques Parent, Chairman
M^e Anne Turgeon, Director

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Fonds d'aide aux recours collectifs (Fonds) was established under the *Act respecting the class action* (R.S.Q., c. R-2.1) to fund class action suits, disseminate information respecting these suits and ensure the necessary funding for launching and carrying out class action suits.

Under the *Income Tax Act* (R.S.C., 1985, c.1, 5th supplement) and the *Taxation Act* (R.S.Q., c. I-3), the Fonds does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Fonds gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management has used estimates is the provision for sick leave. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

Revenue reporting

Proceeds from subrogations, balances of claims and settled claims are reported when cashed.

Investment operations are reported on the date of the operation and the resulting interest income is reported on an accrual basis. Interest income is reported according to the number of days the investment was held during the fiscal year.

Assistance to recipients

Expenses for assistance to recipients is reported in the year the assistance is payable and recipients meet the eligibility criteria, where applicable.

Investments

Short-term investments are recorded at cost or market value, whichever is lower.

The other long-term investments are reported at acquisition value.

Any lasting loss in value is diminished by the investments' book value and is posted to the fiscal year's results.

Future fringe benefits

Pension plan

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Fonds lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2009**3. CHANGE IN ACCOUNTING FRAMEWORK**

Since April 1, 2008, at the Government's request, the Fonds has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the Fonds' accounting policies or its results.

4. FINANCIAL ASSISTANCE TO RECIPIENTS

Financial assistance to recipients for group claims in 2009 was \$181 778 (2008: \$166 815) for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

5. SEGMENTAL REPORTING

Activity sectors	2009			2008		
	Operations	Assistance to recipients	Total	Operations	Assistance to recipients	Total
Revenue						
Gouvernement du Québec subsidy	\$421 700	\$298 200	\$719 900	\$421 700	\$298 200	\$719 900
Subrogations		529 086	529 086		272 962	272 962
Balances on class actions and settled claims ¹		1 031 301	1 031 301		34 064	34 064
Interest		123 975	123 975		136 683	136 683
	<u>421 700</u>	<u>1 982 562</u>	<u>2 404 262</u>	<u>421 700</u>	<u>741 909</u>	<u>1 163 609</u>
Expenditure						
Assistance to recipients	-----	2 146 067	2 146 067	-----	1 424 706	1 424 706
Board of Directors' expenses:						
Fees and fringe benefits	34 075		34 075	35 089		35 089
Travelling and promotional expenses	<u>12 265</u>		<u>12 265</u>	<u>3 873</u>		<u>3 873</u>
	<u>46 340</u>	-----	<u>46 340</u>	<u>38 962</u>	-----	<u>38 962</u>
Administrative expenses:						
Salaries and fringe benefits	236 143		236 143	217 590		217 590
Professional and administrative expenses	35 371		35 371	32 256		32 256
Rent	30 986		30 986	30 725		30 725
Courier and communications	10 594		10 594	8 288		8 288
Materials and supplies	2 525		2 525	2 875		2 875
Maintenance and repairs	631		631	481		481
Other expenses	<u>1 747</u>		<u>1 747</u>	<u>785</u>		<u>785</u>
	<u>317 997</u>	-----	<u>317 997</u>	<u>293 000</u>	-----	<u>293 000</u>
	<u>364 337</u>	<u>2 146 067</u>	<u>2 510 404</u>	<u>331 962</u>	<u>1 424 706</u>	<u>1 756 668</u>
(Deficit) surplus in the fiscal year	<u>\$57 363</u>	<u>\$(163 505)</u>	<u>\$(106 142)</u>	<u>\$89 738</u>	<u>\$(682 797)</u>	<u>\$(593 059)</u>

1 In accordance with the *Act respecting the class action*, all revenue from balances on class actions and settled claims is allocated to assistance to recipients.

FONDS D'AIDE AUX RECOURS COLLECTIFS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

6. INVESTMENTS

	2009	2008
Short-term investments		
Guaranteed investment certificates maturing February 1 and March 31, 2010 at the prime rate minus 2.5%, bearing interest at a fixed rate of 0.3%	\$300 000	\$400 000
Hydro-Québec coupon maturing November 22, 2009, bearing interest at 2.23%.	223 680	
Bond with interest payable half-yearly at rate of 4.274% maturing October 15, 2008		219 441
Province de Québec coupon with guaranteed yield on maturity, bearing interest at 4.12% , maturing September 21,2008		1 499 999
	<u>\$523 680</u>	<u>\$2 119 440</u>
Long-term investments		
Québec tiered-rate bonds maturing September 26, 2012 at an interest rate of 6.10% until September 25, 2009 and 6.25% until September 25, 2010	\$873 000	\$873 000
Province of Québec guaranteed-rate coupon maturing June 1, 2010 at an interest rate of 2.87%	1 604 791	
	<u>\$2 477 791</u>	<u>\$873 000</u>

7. CUMULATED SURPLUS

The Fonds' Board of Directors deems it essential to maintain liquid assets of \$300 000 in its Working Capital Fund. Moreover, it passed a resolution to reserve the cumulated surplus for the Fonds' present and future commitments.

8. COMMITMENTS

At March 31, 2009, Fonds commitments for assistance to recipients amounted to \$2 881 134 (2008: \$2 468 366), including \$62 754 (2008: \$51 654) for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

The limit on the commitments authorized by the Minister of Justice at March 31, 2009 was \$3 300 000 (2008: \$3 300 000), \$300 000 of which (2008: \$300 000) is reserved for two tobacco files (Létourneau and Conseil québécois sur le tabac et la santé).

9. FUTURE FRINGE BENEFITS**Pension plan**

Fonds staff participates in the Government and Public Employees Retirement Plan (RREGOP), which is an inter-enterprise defined-benefit plan that includes guaranteed payments upon retirement and death.

The Fonds' contributions charged to the year-end statement \$11 272 (2008: \$9 906). Its liability towards this Government plan is restricted to its employer contributions.

FONDS D'AIDE AUX RECOURS COLLECTIFSNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**9. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

During the fiscal year, the Fonds changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation increased the value of the obligation by \$9 960 at March 31, 2009. The effect of this change was posted prospectively to results.

	2009	2008
Opening balance	\$24 475	\$19 223
Annual year	20 870	9 999
Benefits paid during the year	(3 966)	(4 747)
Closing balance	\$41 379	\$24 475

Description

The Fonds has sick leave accumulation program, which leads to long-term obligations whose costs are borne by the Fonds in their entirety.

The sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure these payments.

Sick leave accumulation program obligations increase as employees render services to the Fonds. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

Subsequent evaluations and estimates

The sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	2.50%
Discount rate	3.27%
Average remaining service period of active employees	6 years

Provision for vacation time

No actualization calculation for the provision for vacation time is considered necessary since the Fonds deems that vacation time accumulated will be taken the following fiscal year.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

FONDS D'AIDE AUX RECOURS COLLECTIFS**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'aide aux recours collectifs (Fonds) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Jacques Parent
President

Louise Ducharme
Legal Counsel and Secretary

Montréal, July 28, 2009

FONDS D'AIDE AUX RECOURS COLLECTIFS**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds d'aide aux recours collectifs as at March 31, 2009 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Montréal, July 28, 2009

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**
(R.S.Q., c. M-35.1)

STATEMENT OF OPERATIONS AND FUND BALANCE
for the fiscal year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Premiums	\$89 250	\$97 289
Net investment income (Note 3)	<u>301 897</u>	<u>323 896</u>
	391 147	421 185
EXPENSES		
Auditing fees	15 000	15 000
Expense claim		<u>401</u>
	<u>15 000</u>	<u>15 401</u>
EXCESS REVENUES OVER EXPENSES	376 147	405 784
OPENING FUND BALANCE	<u>5 681 357</u>	<u>5 275 573</u>
CLOSING FUND BALANCE	<u><u>\$6 057 504</u></u>	<u><u>\$5 681 357</u></u>

The notes are an integral part of these financial statements.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

BALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash on hand	\$4 767	\$32 205
Accounts receivable	332	90
Deposits in Caisse de dépôt et placement du Québec special fund 329:		
Demand deposits and accrued interest	47 139	52 738
Participation deposits (Note 4)	<u>6 020 266</u>	<u>5 634 769</u>
	<u>\$6 072 504</u>	<u>\$5 719 802</u>
LIABILITIES		
Accounts payable	\$15 000	\$16 793
Prepaid premiums		<u>21 652</u>
	15 000	38 445
FUND BALANCE	<u>6 057 504</u>	<u>5 681 357</u>
	<u>\$6 072 504</u>	<u>\$5 719 802</u>

Guarantee by insurance policy (Note 6)

The notes are an integral part of these financial statements.

On behalf of the Régie,

Marc A. Gagnon
President

Yves Lapierre
Secretary and Executive Director

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS
March 31, 2009

1. CONSTITUTION AND PURPOSE

The Régie des marchés agricoles et alimentaires du Québec (Régie) was established by a special Act (R.S.Q., c. M-35.1) to foster the efficient, orderly marketing of agricultural and food products, develop harmonious relations between the various parties involved and settle disputes arising in connection with the production and marketing of such products, taking into account the interests of consumers and protection of the public interest. The Régie does the same for the marketing of fish products and manages the Fonds d'assurance-garantie (Fund.)

Fonds d'assurance-garantie

The Fonds d'assurance-garantie results from the Régie's application of payment guarantees for agricultural products stipulated in the *Act respecting the marketing of agricultural, food and fish products* (R.S.Q., c. M-35.1, Title III, Chapter XI).

The Régie issues bonds by insurance policies to milk merchants to cover the payment of the sums that a milk merchant owes or might owe his producers or the organization in charge of applying a joint plan. The premiums collected and all other net revenues applicable to this Fund must be used exclusively to pay claims under policies issued by the Régie. No-one can be a milk merchant unless he holds a guarantee policy issued by the Régie. The Minister of Finance can, with the Government's authorization, give the Régie an advance on the sums required to pay the latter's obligations under guarantee policies.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Statement of cash flows

The statement of cash flows is not shown as it would not provide any additional useful information on the Fund's cash flows during the year.

Claim reimbursement

Claims from producers or from the agency responsible for applying a joint plan are posted when known. The amount is adjusted as additional information become available.

Deposits in Caisse de dépôt et placement du Québec special fund 329

Deposits are recorded at cost minus any lasting decline in value.

Revenue reporting

Premiums are posted to revenue for the fiscal year in which they are payable when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Administrative expenses

The Fund's administrative expenses are borne by the Consolidated Revenue Fund apart from auditing fees.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Financial instruments

As Fonds d'assurance-garantie administrator, given the possibility issued by the Accounting Standards Board in September 2008 for entities with no public accountability obligation, the Régie can choose not to apply the current standards governing financial instruments, notably Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". CICA will release new accounting standards governing financial instruments later. They will be applied to the Fonds d'assurance-garantie once they are in effect.

3. NET INVESTMENT INCOME

	<u>2009</u>	<u>2008</u>
Caisse de dépôt et placement du Québec special fund 329:		
Participation deposits	\$301 082	\$322 563
Demand deposits	<u>815</u>	<u>1 333</u>
	<u>\$301 897</u>	<u>\$323 896</u>

4. PARTICIPATION DEPOSITS

Participation deposits in Caisse de dépôt et placement du Québec special fund 329 are expressed in units, each of which gives the holder a proportional share in the net equity and the net revenue of special fund 329. Units may be refunded on advance notice in accordance with the terms of payment of the Caisse de dépôt at the fair value of the net equity of special fund 329 at the end of each month.

	<u>2009</u>	<u>2008</u>
Number of units	6 624	6 218
Fair value per unit	\$870	\$1 005
Cost of units	\$6 020 266	\$5 634 769
Fair value of units	\$5 762 275	\$6 249 696

No decline in value was observed during the fiscal year, given that Régie management considers the decline in the market value of participation deposits to be temporary.

Third-party and bank-sponsored ABCPs

The fair value of participation deposits at March 31, 2009 was determined by the CDPQ using a decline in value on investments it holds on the Canadian market for asset-backed commercial paper not guaranteed by banks and being restructured (third-party ABCPs being restructured).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. PARTICIPATION DEPOSITS (cont'd)

ABCPs (cont'd)

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called "master asset vehicles." These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on December 31, 2009, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2009. Based on the information available at December 31, 2009, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of special fund 329

For the fiscal year ended March 31, 2009, the share in expenses attributed to special fund 329 is (\$235 905) (2008: (\$129 530)) for an investment in ABCPs, via the CDP, of \$716 072 (2008: \$705 561). This share in net investment performance comprises:

- the share in the net investment income of the reversal of interest paid to specialized portfolios of \$7 394 ((\$21 952 in 2008);
- the share of the (\$11 172) ((\$3 581) in 2008) realized losses;
- the share of (\$232 127) ((\$103 997) in 2008) unrealized losses.

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. PARTICIPATION DEPOSITS (cont'd)**Effect on the results of special fund 329 (cont'd)**

The estimated fair value of the CDP's ABCP investments at March 31, 2009 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

In addition to the amounts invested in ABCPs, the CDP is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to special fund 329 is \$380 240 (\$288 568 in 2008).

The share in unrealized losses on ABCPs attributed to special fund 329 includes \$35 504 for guarantees associated with ABCPs (\$22 448 in 2008).

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash, accounts receivable, demand deposits and accounts payable equals their book value, given that they mature in the short term. The fair value of participation deposits is disclosed in Note 4.

6. GUARANTEE POLICIES

Guarantees by insurance policy issued by the Régie ensure the value of the milk bought or received directly from producers over the sixty days immediately preceding the date the guarantee is cancelled or expires.

The value of guarantees in effect at March 31, 2009 is assessed at \$439 M (March 31, 2008: \$430 M) established based on the total of the two highest monthly milk and cream receipts for the preceding fiscal year for all merchants for whom the Régie issued a surety during the year.

Further, to guarantee a milk merchant's solvency, the Régie requires additional conditions before issuing a guarantee policy. For new milk merchants, those in financial difficulty or foreign companies, guarantee or surety letters from financial institutions, parent companies or subsidies are required. The value of these additional guarantees obtained at March 31, 2009 totalled \$0.5 M (March 31, 2008: \$0.4 M).

**FONDS D'ASSURANCE-GARANTIE ADMINISTERED BY THE
RÉGIE DES MARCHÉS AGRICOLES ET ALIMENTAIRES DU QUÉBEC**

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-garantie (Fund) administered by the Régie des marchés agricoles et alimentaires du Québec as at March 31, 2009 and the statement of operations and the fund balance for the year then ended. These financial statements are the responsibility of Régie management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by the Régie's management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 3, 2009

PARENTAL INSURANCE FUND
(R.S.Q., c. A-29.011)

STATEMENT OF OPERATIONS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u> (Restated – Note 3)
REVENUES		
QPIP* contributions	1 343 767	1 233 061
Net investment income (Note 4)	4 910	16 837
Interest and penalties on QPIP contributions	<u>3 350</u>	<u>2 779</u>
	<u>1 352 027</u>	<u>1 252 677</u>
EXPENSES		
QPIP benefits	1 561 484	1 450 798
Bad debts	2 654	1 940
Financial expenses	2	
Administrative expenses allocated by the Conseil de gestion de l'assurance parentale (Notes 3 and 5)	<u>39 855</u>	<u>35 643</u>
	<u>1 603 995</u>	<u>1 488 381</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>(251 968)</u>	<u>(235 704)</u>

The notes are an integral part of these financial statements.

* Québec Parental Insurance Plan

STATEMENT OF CUMULATED DEFICIT
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
OPENING (CUMULATED DEFICIT) NET ASSETS		
Existing balance	(26 693)	210 662
Government of Canada maternity, parental and adoption benefits payable (Note 3)	<u>(5 288)</u>	<u>(6 939)</u>
Restated balance	<u>(31 981)</u>	<u>203 723</u>
Deficiency of revenues over expenses	<u>(251 968)</u>	<u>(235 704)</u>
CLOSING CUMULATED DEFICIT	<u><u>(283 949)</u></u>	<u><u>(31 981)</u></u>

The notes are an integral part of these financial statements.

PARENTAL INSURANCE FUND

BALANCE SHEET
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u> (Restated – Note 3)
ASSETS		
Current assets		
Cash on hand	16 000	448
Accounts receivable (Note 6)	109 248	137 072
Advance to the Ministère des Finances, prime rate minus 2.5%, no encashment terms		10 466
Advance to the Conseil de gestion de l'assurance parentale, interest-free, no encashment terms (Note 3)	3 705	7 462
Funds entrusted to the Caisse de dépôt et placement du Québec (Note 7)	<u>2 340</u>	<u>199 729</u>
	<u>131 293</u>	<u>355 177</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 8)	55 626	40 514
Amount owing to the Ministère des Finances, prime rate, no repayment terms (Note 9)	12 972	
Government of Canada maternity, parental and adoption benefits payable (Note 10)	346 644	346 644
CUMULATED DEFICIT	<u>(283 949)</u>	<u>(31 981)</u>
	<u>131 293</u>	<u>355 177</u>

FUTURE QUÉBEC PARENTAL INSURANCE PLAN BENEFITS (Note 13)
SUBSEQUENT EVENT (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Geneviève Bouchard
President-CEO
Conseil de gestion de l'assurance parentale
Parental Insurance Fund trustee

Éric Lavoie, CA
Chair, Planning and Auditing
Committee

PARENTAL INSURANCE FUND

STATEMENT OF CASH FLOWS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
QPIP contributions collected	1 373 531	1 245 124
Net investment income collected	5 019	21 997
Interest and penalties on QPIP contributions collected	3 350	2 779
QPIP benefits paid	(1 551 075)	(1 460 429)
Administrative expenses paid to the Conseil	<u>(39 855)</u>	<u>(37 294)</u>
Cash flows used in operating activities	<u>(209 030)</u>	<u>(227 823)</u>
INVESTMENT ACTIVITIES		
Net change in advances	27 195	18 172
Funds entrusted to the Caisse de dépôt et placement du Québec		
Acquisition of participation deposits	(55 748)	(62 342)
Revenue from sale of participation deposit units	<u>223 356</u>	<u>288 512</u>
Cash flows from investment activities	<u>194 803</u>	<u>244 342</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14 227)	16 519
OPENING CASH AND CASH EQUIVALENTS	<u>30 574</u>	<u>14 055</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 11)	<u>16 347</u>	<u>30 574</u>

The notes are an integral part of these financial statements.

PARENTAL INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

as at December 31, 2008

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FUNDING

Constitution and purpose

The Parental Insurance Fund (Fund), a social trust under Québec's Civil Code, was created on June 17, 2005 by the *Act respecting parental insurance* (R.S.Q., c. A-29.011), assented to that same day. The Conseil de gestion de l'assurance parentale (Conseil) is its trustee.

The Fund is mandated to pay benefits to those entitled to receive them under the *Act respecting parental insurance* and to pay for the Conseil's obligations in exercising its trustee duties.

Expenses related to Fund administration and the Conseil's application of the *Act respecting parental insurance*, with the exception of those paid from the amounts the Conseil holds for purses other than trusteeship, are paid by the Fund.

Funding

The Fund's main source of funding is the contributions Revenu Québec receives from salaried employees, their employers and self-employed workers working in Québec. As the body responsible for managing the Québec Parental Insurance Plan (QPIP), the Conseil determines the contribution applicable to these persons, subject to the Government's approval.

The Plan pays benefits to all eligible workers who take maternity leave, paternity leave, parental leave or adoption leave.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Plan contributions

Revenu Québec collects QPIP contributions for the Fund and pays them into it on a regular basis. These amounts are provisional and can be audited and rectified. Best estimates of these contributions are reported at fiscal year-end. This estimate is used to report later contributions for the fiscal year based on the financial data known at the time. Where applicable, adjustments are reported in the fiscal year they become known.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances including bank overdrafts and investments that are easily convertible in the short term into a known amount of cash, whose value is unlikely to change significantly.

Financial instruments

Initial assessment

Financial instruments are reported at fair value the date of the transaction.

PARENTAL INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)***Subsequent assessment*Funds entrusted to the Caisse de dépôt et placement du Québec

The funds entrusted to the Caisse de dépôt et placement du Québec (CDP) are reported at the fair value established by the CDP by means of evaluation methods used on capital markets, such as actualization at current cash flow interest rates, stock prices on the main stock exchanges and those supplied by recognized stock brokers, and current evaluation methods. The funds include participation deposits in a special CDP fund and the related income receivable and demand deposits and related accrued interest. They comprise assets that have been irrevocably designated transaction purposes apart from the demand deposits, which, by nature, are classified for transaction purposes. The change in fair value is posted to investment income.

Advances

Advances have been classified as loans and accounts receivable. Their subsequent assessment is posted at cost, amortized in accordance with the effective interest method, where applicable. A provision for bad debts is posted when necessary.

Amount owing to the Ministère des Finances

The amount owing to the Ministère des Finances is classified under "Other financial liabilities". Consequently, it is reported at amortized cost using the effective interest rate method.

Other short-term financial assets and liabilities

Cash, accounts receivable, accounts payable, accrued expenses, and Government of Canada maternity, paternity and adoption benefits are held or have been irrevocably designated for transaction purposes and are recognized at their fair value. The book value of these short-term instruments represents a reasonable estimate of their fair value, given that they mature in the near future.

Comprehensive income

During the fiscal year ended December 31, 2008, the Fund did not carry out any operation affecting comprehensive income and no opening or closing balance for cumulated comprehensive income has been presented.

3. CHANGES IN ACCOUNTING POLICIES**Adoption of new accounting standards**

On January 1, 2008, the Fund adopted the CICA Handbook's Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation", which replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation", change and increase requirements regarding information to be disclosed. Sections 3862 and 3863 give more importance to disclosures, enabling users to assess the nature and scope of the risks resulting from the financial instruments to which the Fund is exposed and how it manages these risks. Since sections 3862 and 3863 are limited to disclosure of additional information, they do not affect the Fund's results.

PARENTALE INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

Adoption of a new accounting standard by the Conseil de gestion de l'assurance parentale

During the year, the Conseil applied CICA'S new recommendations for Section 3064, "Goodwill and Intangible Assets" in advance. This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally.

The advance application of Section 3064 to the Conseil's financial statements also affected the financial statement of the Fund's past fiscal years since, under the *Act respecting parental insurance*, the Conseil's Fund administration-related expenses are paid by the latter. The Fund's comparative financial statements for 2007 were restated to reflect the impact of the Conseil's retrospective application of Section 3064 to the Fund, based on its incorporating legislation. The impacts of the change are presented in the table below.

Impact on the Parental Insurance Fund, increase (decrease), on fiscal 2007 following the Conseil de gestion de l'assurance parentale's change in accounting policy

	2007
Operations	
Administrative expenses allocated by the Conseil de gestion de l'assurance parentale	(1 651)
Deficiency of revenues over expenses	(1 651)
Cumulated deficit	
Opening net assets	(6 939)
Closing cumulated deficit	5 288
Balance sheet	
Advance to the Conseil de gestion de l'assurance parentale	(5 288)
Cumulated deficit	5 288

4. NET INVESTMENT INCOME

	2008	2007
Participation deposits in a special fund at the Caisse de dépôt et placement du Québec¹		
Current revenue	3 752	16 223
(Losses) gains on investments	(838)	309
	2 914	16 532
Change in fair value	24	(2 441)
	2 938	14 091
Interest		
Demand deposits ²	1 572	2 026
Advances ¹ and bank balances ²	400	720
	4 910	16 837

1: Related to a financial instrument designated as held for transaction purposes

2: Related to a financial instrument classified as held for transaction purposes

PARENTAL INSURANCE FUND

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

5. ADMINISTRATIVE EXPENSES ALLOCATED BY THE CONSEIL

	2008	2007 (Restated – Note 3)
Salaries and fringe benefits	1 147	1 203
Support and administrative services to the Ministère de l'Emploi et de la Solidarité sociale	300	341
Costs related to QPIP administration by the Ministère de l'Emploi et de la Solidarité sociale	20 892	20 133
Costs related to computer support activities by the Ministère de l'Emploi et de la Solidarité sociale	5 762	3 490
Costs related to Revenu Québec's contribution collection activities	6 571	6 210
Bank charges related to QPIP benefit payment by the Ministère des Finances	74	76
Professional services	155	86
Other administrative expenses	250	145
Amortization of capital assets	44	36
Amortization of intangible assets	4 276	3 463
Interest charges on long-term debt	384	460
	<u>39 855</u>	<u>35 643</u>

The charges incurred by the Conseil to apply the *Act respecting parental insurance* are paid by the Fund.

6. ACCOUNTS RECEIVABLE

	2008	2007
QPIP contributions receivable	94 359	125 578
Collection of QPIP benefits receivable	9 743	6 220
Prepaid at-source deductions - Québec	2 724	2 578
Prepaid at-source deductions - Canada	2 358	2 524
Interest receivable	54	162
Other	10	10
	<u>109 248</u>	<u>137 072</u>

7. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2008	2007
Deposits in a special fund at the Caisse de dépôt et placement du Québec		
Demand deposits ¹	347	30 126
Participation deposits ²	1 468	169 052
Investment income receivable ²	525	551
	<u>2 340</u>	<u>199 729</u>

1: Held for transaction purposes

2: Irrevocably designated for transaction purposes

PARENTAL INSURANCE FUND**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

7. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)

Participation deposits in a special fund at the CDP are expressed in units. These units are repayable with advance notice, in accordance with the Caisse's settlement means, at the market value of the special fund's net equity at the beginning of each month. At the end of each month, the CDP assigns the special fund the net investment income.

	2008	2007
Demand deposits		
Number of units (in thousands)	3	171
Units' acquisition cost	2 995	170 604
Units' fair value	1 468	169 052

In 2008, the Fund had 224 347 participation deposit units (2007: 287 106 units) worth \$223 356 112 (2007: \$288 511 643).

Third-party and bank-sponsored ABCPs

The fair value of participation deposits at December 31, 2008 was determined by the CDP using a decline in value on investments it holds on the Canadian market for asset-backed commercial papers (ABCPs) that were restructured.

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest. The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called "master asset vehicles." These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

Fair value establishment

Given that, on December 31, 2008, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at December 31, 2008, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

PARENTAL INSURANCE FUND**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

7. FUNDS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**Effect on the Parental Insurance Fund's results**

For the fiscal year ended December 31, 2008, the share in losses attributed to the Parental Insurance Fund was \$1 598 000 (2007: \$595 000) for an investment in ABCPs, via the CDP, of \$3 488 000 (2007: \$3 440 000). The loss comprises:

- the share of the \$1 527 000 (2007: \$507 000) unrealized loss on these securities;
- the share of the reversal of interest paid to specialized portfolios for these securities minus interest arrears for these securities, namely \$3 000 (2007: \$70 000);
- the share of the \$68 million (2007: \$18 000).

The estimated fair value of the CDP's ABCP investments at December 31, 2008 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years.

Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the Deposit Insurance Fund.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Revenu Québec	667	
QPIP benefits payable and accrued	54 959	40 514
	<u>55 626</u>	<u>40 514</u>

9. AMOUNT OWING TO THE MINISTÈRE DES FINANCES

The Fund has credit of up to \$50 million authorized by the Gouvernement du Québec to meet its short-term cash requirements. At December 31, 2008, \$12 971 866 had been used (December 31, 2007: zero). Amounts used bear interest at the prime rate, payable annually on June 30 and December 31. At December 31, 2008, the prime rate was 3.5%. This credit expires on March 31, 2012.

10. GOVERNMENT OF CANADA MATERNITY, PARENTAL AND ADOPTION BENEFITS PAYABLE

Under section 4.5 of the Canada-Québec Final Agreement on the Québec Parental Insurance Plan, the Gouvernement du Québec must reimburse the Government of Canada the amount of maternity, parental and adoption benefits the latter paid in 2006 to Québec beneficiaries whose benefit period began before January 1, 2006. This amount is estimated at \$346.6 million (2007: \$346.6 million), including the management costs related to these benefits. The final evaluation of this amount depends on the ratification of an administrative agreement between the two parties to determine the amount and the terms of repayment to be made to the Government of Canada.

PARENTAL INSURANCE FUND**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

11. CASH FLOW

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents		
Cash on hand	16 000	448
Demand deposits (Note 7)	<u>347</u>	<u>30 126</u>
	<u><u>16 347</u></u>	<u><u>30 574</u></u>

12. FINANCIAL INSTRUMENTS**Credit risk**

The Fund's maximum credit risk exposure corresponds to the book value of its financial assets. The Fund assesses these assets on an ongoing basis and records a provision for losses when the accounts are deemed irrecoverable.

Fair value

Given that they mature in the short term their fair value, the fair value of accounts payable and accrued liabilities shown in the balance sheet is considered equivalent to their book value.

Since no terms of encashment are foreseen for the advance to the Conseil de gestion de l'assurance parentale, which is a related party, and there is no market for this type of assets, the fair value cannot be evaluated.

The fair value of the amount owing to the Ministère des Finances and of the Government of Canada's maternity, parental and adoption benefits cannot be determined, given that there are not terms of repayments and no market for this type of liability.

Liquidity risk

Contractual cash flows related to QPIP benefits payable and accrued liabilities owing to Revenu Québec at December 31, 2008 matured within 6 months. The amount owing to the Ministère des Finances and Government of Canada maternity, parental and adoption benefits payable have no determined maturity date since there are no terms of repayment.

The Fund considers that it hold sufficient financial assets that are easily convertible into cash and credit facilities so as to have the amounts needed to keep its current and long-term financial needs at a reasonable cost, if applicable.

Interest rate risk

The Conseil is exposed to an interest rate risk on the amount owing to the Ministère des Finances, since the balance bears interest at a variable rate.

The net impact on financial liabilities of a 1% increase or decrease in the rate would increase or decrease the Fund's fiscal year results by \$1 200.

PARENTAL INSURANCE FUND**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

13. FUTURE QUÉBEC PARENTAL INSURANCE PLAN BENEFITS

The estimated current value of future payments at December 31, 2008 for post-fiscal year QPIP benefits made to beneficiaries having filed an eligible application for QPIP benefits at December 31, 2008 is estimated at \$546.6 millions (\$530 millions in 2007).

14. RELATED PARTY TRANSACTIONS

The Fund is a related party to its trustee, Conseil de gestion de l'assurance parentale, and did not do business with this related party other than during the normal course of operations and under normal business conditions. These related party transactions, reported at exchange value, are not shown separately in the financial statements.

15. SUBSEQUENT EVENT

Under Order-in-Council 238-2009 of March 18, 2009, to meet its short-term cash requirements, the Fund can create a borrowing scheme enabling it to borrow in the short term using credit lines with financial institutions or from the Minister of Finance, as the Financing Fund manager, up to a total of \$300 million de dollars, until October 31, 2010.

TRUSTEE'S REPORT

The financial statements of the Parental Insurance Fund were prepared by Conseil de gestion de l'assurance parentale management, as the Fund's trustee, which is responsible for their preparation and presentation, including data integrity and reliability, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Conseil recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. It must prepare an annual actuarial valuation of the application of the provisions of the Act respecting parental insurance and the statement of account for the Québec Parental Insurance Plan (QPIP).

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the planning and auditing committee to discuss any matter related to the audit.

For the Conseil de gestion de l'assurance parentale,
Geneviève Bouchard
President-CEO
Parental Insurance Fund trustee

Étienne Sabourin, CA, MBA
Financial management

Québec, April 3, 2009

PARENTAL INSURANCE FUND**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Parental Insurance Fund as at March 31, 2008 and the statements of operations, cumulated deficit, net assets and cash flows for the year then ended. These financial statements are the responsibility of the Conseil de la gestion de l'assurance parentale management, as trustee. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at March 31, 2008 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, April 3, 2009

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND
(R.S.Q., c. D-7.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Employer contributions	27 932	24 229
Interest	1 917	2 620
Government of Canada contribution (Note 3)	1 156	780
Fees and charges	<u>1 023</u>	<u>784</u>
	<u>32 028</u>	<u>28 413</u>
EXPENSES		
Employer subsidies (Note 4)	13 440	11 370
Workplace Skills Initiative	1 521	1 026
Management fees (Note 5)	3 225	3 243
Contribution collection fees	552	529
Promotion and advertising	<u>17</u>	<u>29</u>
	<u>18 755</u>	<u>16 197</u>
SURPLUS	13 273	12 216
CUMULATED SURPLUS AT THE BEGINNING	<u>83 096</u>	<u>70 880</u>
CUMULATED SURPLUS AT THE END	<u><u>96 369</u></u>	<u><u>83 096</u></u>

The notes are an integral part of these financial statements.

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Consolidated Revenue Fund advance (Note 6)	1 008	565
Investments (Note 7)	70 188	57 460
Employer contributions receivable	26 619	25 510
Accounts receivable (Note 8)	880	668
Prepaid expenses	<u>304</u>	<u>228</u>
	<u>98 999</u>	<u>84 431</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2 630	1 335
CUMULATED SURPLUS	<u>96 369</u>	<u>83 096</u>
	<u>98 999</u>	<u>84 431</u>

COMMITMENTS (Note 10)

The notes are an integral part of these financial statements.

Jean-Luc Trahan
President
Commission des partenaires du marché du travail

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The *Act to foster the development of manpower training* (R.S.Q., c. D-7.1) was amended on June 8, 2007 by Bill 5, an Act to amend the Act to promote workforce skills development and recognition, becoming the Act to promote workforce skills development and recognition. The National Manpower Training Fund was replaced by the Workforce Skills Development and Recognition Fund (Fund) created by this legislation. The Minister of Employment and Social Solidarity is responsible for Fund administration. Under section 3 of the agreement signed February 12, 2008 by the Minister of Employment and Social Solidarity and the Commission des partenaires du marché du travail and section 7.1 of the *Act respecting the Ministère de l'Emploi et de la Solidarité sociale and the Commission des partenaires du marché du travail*, Fund administration was delegated to the Commission des partenaires du marché du travail.

The Fund's purpose is to promote the financial and technical support of workforce skills development measures and initiatives.

Under federal and provincial income tax legislation, the Fund does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management has used estimates and assumptions is employer contributions. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Fund's cash flows during the year.

Financial instruments

The Fund chose, under the option issued by the Accounting Standards Board in September 2008 for entities with no public accountability obligation not to apply the current standards governing financial instruments, notably Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". New standards governing financial instruments will be released by CICA later and applied by the Fund once they are in effect.

Employer contributions

Under the Fund's incorporating legislation, any employer whose payroll exceeds the amount set by regulation is required to pay a contribution corresponding to the difference between the minimum participation and eligible training expenditures for the calendar year. These employer contributions, which are collected by the Minister of Revenue on behalf of the Fund, are posted in keeping with the amount reported by the employers for the preceding calendar year and are subject to auditing and adjustment. Where applicable, adjustments are posted to employer contribution revenue in the fiscal year in which it is known.

Interest, royalties and fees

Interest, royalties and fees are posted when earned, provided that measurement and collection of the amount concerned is reasonably certain.

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Contribution reporting

Allocated contributions are deferred and reported as revenue for the fiscal year during which the related expenses are incurred, where applicable. Unallocated contributions are reported as revenue when they are received or receivable if the amount receivable can be reasonably estimated and its reception is reasonably certain.

Subsidies

Subsidies are recognized when authorized by the Fund and when employers have met the eligibility criteria. Recovered subsidy overpayments are used to reduce expenditures in the fiscal year in which they are recovered or recoverable.

Investments

Inventories are recorded at cost or net realization value, whichever is lower.

Capital assets

Capital assets, comprising computer equipment, are recorded at cost and amortized over their probable service life using the straight-line method and a 3-year period.

3. GOUVERNEMENT DU CANADA CONTRIBUTION

The Government of Canada contribution is related to the Agreement between the Government of Canada and the Commission des partenaires du marché du travail (CPMT) for the Workplace Skills Initiative (WSI). According to this three-year agreement, which began in 2007-2008, the Government of Canada will fund 69%, 22% and 9% of eligible project costs. The CPMT partners' contribution is not included in the Workforce Skills Development and Recognition Fund's financial statements, given that they report on their contribution directly.

4. EMPLOYER SUBSIDIES

	2009	2008
Subsidies for the current year	13 774	12 597
Adjustments known for the year:		
Subsidy overpayments	(364)	(1 261)
Unrecoverable subsidy overpayments	30	34
	<u>13 440</u>	<u>11 370</u>

5. MANAGEMENT FEES

As stipulated in the *Act to promote workforce skills development and recognition*, the Commission des partenaires du marché du travail restricted the amounts that could be taken from the Fund for remuneration and expenses related to fringe benefits and other working conditions of employees involved in the application of chapters II and III of the Act. The amounts correspond to the salaries and fringe benefits of 52 FTEs for the fiscal year ended March 31, 2009 (2008: 53). These employees are responsible for the information, promotion and enforcement of the Act and its regulations and for the administration of the Fund.

Management fees received free of charge from the Ministère de l'Emploi et de la Solidarité sociale are not shown in the Fund's financial statements.

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

6. CONSOLIDATED REVENUE FUND ADVANCE

The advance bears interest at the prime rate minus 2.50%, which was zero at March 31, 2009 (March 31, 2008: 2.75%) and includes no terms and conditions of repayment.

7. INVESTMENTS

Investments comprise bank acceptances maturing between April 14 and May 28, 2009 and interest rates varying between 0.51% and 0.54% (between 3.53% and 3.78% at March 31, 2008).

8. ACCOUNTS RECEIVABLE

	2009	2008
Government of Canada contribution	625	391
Employer subsidy overpayments	154	157
Secrétariat du Conseil du trésor	82	75
Interest – Investments	18	37
Interest – Consolidated Revenue Fund	1	8
	<u>880</u>	<u>668</u>

9. CAPITAL ASSETS

	2009	2008
	Cost	Net value
Computer equipment	<u>4</u>	<u>4</u>

On April 1, 2008, the Fund transferred a portion of the fully amortized computer equipment for null to the Centre de services partagés du Québec, via the Ministère de l'Emploi et de la Solidarité sociale's Information Technologies Fund.

10. COMMITMENTS

The Fund committed to providing financial support for projects designed to promote and support workforce skills development measures and initiatives. The balance of commitments at March 31, 2009 was \$31 072 961 (\$17 158 346 at March 31, 2008) and an additional amount not to exceed \$398 599 could be paid.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fund is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Fund did not do business with these related parties other than during the normal course of operations and under normal business conditions, apart from services received free of charge by the Ministère de l'Emploi et de la Solidarité sociale, which are recognized at exchange value, i.e. zero. These transactions are not shown separately in the financial statements. The immoveables sales transaction between related parties was posted at the assignor's book value and disclosed in Note 9.

12. FINANCIAL INSTRUMENTS

The fair value of current assets and liabilities equals their book value, given that they mature in the short term.

WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND**MANAGEMENT'S REPORT**

The financial statements of the Workforce Skills Development and Recognition Fund were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

Fund management recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. Management has approved the financial statements.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean-Luc Trahan
President
Commission des partenaires du marché du travail

Montréal, July 23, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Workforce Skills Development and Recognition Fund as at March 31, 2009 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of Fund management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 23, 2009

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC
(R.S.Q., c. M-30.01)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Subsidies – Scholarships and grants (Note 4)	\$93 444 361	\$91 009 865
Interest and other revenue (Note 5)	<u>2 621 824</u>	<u>2 282 663</u>
	<u>96 066 185</u>	<u>93 292 528</u>
EXPENSES		
Scholarships and grants awarded (Note 6)	89 676 530	85 891 598
Operating expenses (Note 7)	<u>5 651 946</u>	<u>5 102 853</u>
	<u>95 328 476</u>	<u>90 994 451</u>
EXCESS OF REVENUES OVER EXPENSES	<u><u>\$737 709</u></u>	<u><u>\$2 298 077</u></u>

The notes are an integral part of these financial statements.

CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$3 449 914	\$1 151 837
Excess of revenues over expenses	<u>737 709</u>	<u>2 298 077</u>
CLOSING BALANCE	<u><u>\$4 187 623</u></u>	<u><u>\$3 449 914</u></u>

The notes are an integral part of these financial statements.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand (Note 13)	\$772 065	\$1 149 436
Term deposits (1.73% to 3.11% maturing between September 21, 2009 and January 15, 2010) (Note 13)	40 279 785	28 169 150
Accrued interest	364 706	523 822
Accounts receivable (Note 9)	895 732	49 201
Prepaid expenses	49 380	55 899
	<u>42 361 668</u>	<u>29 947 508</u>
Capital assets (Note 10)	<u>1 102 191</u>	<u>883 147</u>
	<u><u>\$43 463 859</u></u>	<u><u>\$30 830 655</u></u>
LIABILITIES		
Current liabilities		
Scholarships and grants payable	\$5 635 331	\$5 451 728
Accounts payable and accrued liabilities (Note 11)	886 166	922 882
Deferred contributions (Note 12)	14 545 251	9 432 759
	<u>21 066 748</u>	<u>15 807 369</u>
Deferred contributions related to capital assets	41 763	66 817
Special Research Fund (Note 13)	18 167 725	11 506 555
APPROPRIATED CUMULATED SURPLUS (Note 8)	<u>4 187 623</u>	<u>3 449 914</u>
	<u><u>\$43 463 859</u></u>	<u><u>\$30 830 655</u></u>

COMMITMENTS (Note 15)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Yves Joannette, PhD
Jacques Hendlisz

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2009

1. CONSTITUTION AND PURPOSE

The Fonds de la recherche en santé du Québec (Fonds) is a corporation established under the *Act respecting the Ministère du Développement économique, de l'Innovation et de l'Exportation* (R.S.Q., c. M-30.01) to promote and provide financial support, through grants and scholarships, for research and for researcher training and advanced training in the field of health sciences, and to implement the financial support programs under its authority pursuant to another act or, with the authorization of the Government and in keeping with the conditions it determines, the financial support programs under the authority of a Government department or public agency.

Under section 48 of the *Act respecting the Ministère du Développement économique, de l'Innovation et de l'Exportation*, the Fonds de la recherche en santé du Québec is a mandatary of the State, and, as such, does not pay federal or provincial income tax.

2. ACCOUNTING POLICIES**Use of estimates**

To prepare its financial statements, the Fonds gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the provision for bad debts and the service life of capital assets. Real results may differ from these estimates.

Revenue reporting

Unappropriated subsidies are reported as revenue when received or receivable if the amount can be reasonably estimated and its recovery is relatively certain. Subsidies allocated by the Government for scholarships and grants are deferred and posted to revenue in the fiscal year in which the expenses for which they are allocated are incurred.

Scholarships and grants awarded

Scholarships and grants are posted when they have been approved and recipients have met the eligibility criteria. Cancelled or recovered scholarships and grants are posted in the year in which they were cancelled or recovered.

Capital assets

Capital assets are recorded at acquisition cost and amortized using the straight-method line over their estimated service life, i.e. 5 years for furniture and equipment, 3 years for computer equipment and software, and the remainder of the lease for leasehold improvements.

When market conditions show that a capital asset no longer contributes to the Fonds' capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. No recovery is posted.

Deferred contribution for capital assets

Gouvernement du Québec contributions for the acquisition of amortizable capital assets are deferred and posted to the statement of operations using the same terms as the related capital assets' amortization.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Fonds lacks sufficient information to apply the accounting procedure for defined-benefit plans.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Term deposits

Term deposits are reported at cost or market value, whichever is lower.

Statement of cash flows

The statement of cash flows is not shown, given that it would not provide any additional useful information on the Fonds' cash flows during the year.

3. CHANGE IN ACCOUNTING POLICIES

On April 1, 2008, the Fonds changed accounting frameworks (for its financial statements) from the CICA Handbook for the private sector to the CICA Public Sector Accounting Handbook. This change did not affect the Fonds' accounting policies, results or cumulated surplus.

4. SUBSIDIES - SCHOLARSHIPS AND GRANTS

	2009	2008
Ministère du Développement économique, de l'Innovation et de l'Exportation*	\$74 503 417	\$72 752 004
Régie de l'assurance maladie du Québec*	13 150 000	11 812 435
Ministère de la Santé et des Services sociaux du Québec*	4 358 846	4 582 214
Institut de recherche Robert-Sauvé en santé et en sécurité du travail	33 000	33 000
Fonds québécois de la recherche sur la société et la culture*	467 500	467 500
Newton Foundation		250 000
Centre hospitalier Ste-Justine		1 252
Pfizer	300 000	300 000
AstraZeneca	263 825	254 500
Transfer of deferred contributions for capital assets	25 054	48 535
	<u>93 101 642</u>	<u>90 501 440</u>
Other	<u>342 719</u>	<u>508 425</u>
	<u><u>\$93 444 361</u></u>	<u><u>\$91 009 865</u></u>

* Jointly-controlled related parties

5. INTEREST AND OTHER REVENUE

	2009	2008
Interest on bank and short-term deposits	\$1 121 603	\$1 250 004
Cancellations and recovery of scholarships and grants	358 043	307 350
Administrative expenses	709 820	605 705
Other	432 358	119 604
	<u><u>\$2 621 824</u></u>	<u><u>\$2 282 663</u></u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

6. SCHOLARSHIPS AND GRANTS AWARDED

	2009	2008
Training grants	\$13 456 769	\$11 638 513
Career scholarships	19 869 276	19 609 888
Research subsidies	12 044 529	10 729 369
International exchange programs	138 708	125 428
Subsidies for groups, centres, teams and research themes	44 167 248	43 788 400
	<u>\$89 676 530</u>	<u>\$85 891 598</u>

7. OPERATING EXPENSES

	2009	2008
Salaries and fringe benefits	\$3 211 527	\$2 908 964
Professional fees	326 225	314 212
Travelling and accommodation expenses	257 637	196 377
Office space	780 016	785 109
Office expenses	227 118	206 331
Maintenance and repairs	376 078	385 506
Amortization of furniture and equipment	16 129	36 981
Amortization of leasehold improvements	24 153	24 311
Amortization of computer equipment and software	433 063	245 062
	<u>\$5 651 946</u>	<u>\$5 102 853</u>

8. APPROPRIATED CUMULATED SURPLUS

The Fonds' Board of Directors appropriated net assets of \$4 187 623 at March 31, 2009 (\$3 449 914 at March 31, 2008) for scholarships and grants to be awarded in the coming fiscal year and for operating costs. The Fonds cannot use these amounts tied to appropriations of outside origins for other purposes without the Board of Directors' prior consent. These appropriations break down as follows:

	2009	2008
Subsidies		\$3 294 914
Innovative strategic development projects	\$1 500 000	
Québec Research and Innovation Strategy - groups and networks portion	1 396 000	
Scholarships and grants	891 623	
Operating costs	400 000	155 000
	<u>\$4 187 623</u>	<u>\$3 449 914</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. ACCOUNTS RECEIVABLE

	2009	2008
Manitoba Health Research Council	\$98 000	
Nova Scotia Health Research Foundation	27 500	
Canadian Institutes of Health Research	75 241	
Ministère de la Santé et des Services sociaux du Québec*	35 000	
Ministère du Développement économique, de l'Innovation et de l'Exportation*	68 250	
Ontario Institute for Cancer Research		\$14 000
Natural Sciences and Engineering Research Council of Canada	507 144	
Other	84 597	35 201
	<u>\$895 732</u>	<u>\$49 201</u>

* Jointly-controlled related parties

10. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$96 500	\$49 782	\$46 718
Leasehold improvements	273 009	177 496	95 513
Computer equipment and software	1 672 221	712 261	959 960
	<u>\$2 041 730</u>	<u>\$939 539</u>	<u>\$1 102 191</u>
			<u>\$883 147</u>

The fiscal year's capital asset acquisitions totalled \$692 389 (2008: \$735 788).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Suppliers and expenses payable	\$623 037	\$483 169
Salaries and fringe benefits payable	251 023	259 674
Fonds québécois de la recherche sur la société et la culture*		2 199
Fonds québécois de la recherche sur la nature et les technologies*	2 868	3 000
McGill University		174 840
Other	9 238	
	<u>\$886 166</u>	<u>\$922 882</u>

* Jointly-controlled related parties

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. DEFERRED CONTRIBUTIONS

	2009	2008
Protected programs	\$3 024 979	\$3 189 994
Support for health research in rural and semi-rural populations		90 000
National emergency program	736 788	1 020 288
Pfizer	4 193 950	2 800 000
Ministère du Développement économique, de l'Innovation et de l'Exportation – Québec Research and Innovation Strategy	1 555 705	913 321
Cancer Research Society	1 275 000	
Fight against cancer program	1 465 000	
Consortium for Research Development in Traumatology	650 000	
Other	1 643 829	1 419 156
	<u>\$14 545 251</u>	<u>\$9 432 759</u>

The fiscal year's contributions totalled \$14 952 630 (2008: \$10 852 651). The amounts posted to proceeds totalled \$9 840 138 (2008: \$6 994 325).

13. SPECIAL RESEARCH FUND

This item represents amounts received from private firms to create a special research fund. The Fonds de la recherche en santé du Québec acts as a trustee for the amounts deposited there.

Under agreements, 86% of the interest generated by the Fonds de pharmacologie et de l'hypertension shall be used for grants for research fellowships in pharmacology and hypertension. Also, 4% of the interest is paid to the Fonds de la recherche en santé du Québec as administrative expenses and the balance, i.e. 10%, is allocated to the principle.

Under the memorandum of agreement, all interest from the Fonds d'innovation Pfizer-FRSQ and revenue from Pfizer's contribution must be used solely for the activities of the Fonds d'innovation Pfizer-FRSQ. However, Pfizer authorizes the FRSQ to collect, as administrative fees for management of the Fonds d'innovation and organization of contests related to its activities, the interest and revenue accumulated in the Fonds d'innovation up to but not exceeding 5% of the amounts of subsidies granted annually by the Fonds d'innovation Pfizer-FRSQ.

The amounts break down as follows:

	2009	2008
Pharmacology		
Principle		\$460 450
Accumulated interest		304 861
		<u>765 311</u>
Hypertension		
Principle	\$553 777	551 638
Accumulated interest	93 309	74 909
	<u>647 086</u>	<u>626 547</u>
Fonds d'innovation Pfizer - FRSQ		
Principle	17 000 000	10 000 000
Accumulated interest	520 639	114 697
	<u>17 520 639</u>	<u>10 114 697</u>
	<u>\$18 167 725</u>	<u>\$11 506 555</u>

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. SPECIAL RESEARCH FUND (cont'd)

**Changes in Fund balance
for the year ended March 31, 2009**

	2009	2008
Opening balance	\$11 506 555	\$1 366 093
Increase		
Interest on term deposits	451 688	154 642
Fonds d'innovation Pfizer - FRSQ	7 000 000	10 000 000
Decrease		
Pharmacology	(789 662)	
Grants awarded		(12 098)
Administrative expenses – FRSQ	(856)	(2 082)
Closing balance	<u>\$18 167 725</u>	<u>\$11 506 555</u>

**Balance sheet
as at March 31, 2009**

	2009	2008
Assets		
Current assets		
Cash on hand	\$498	\$12 494
Term deposits and accrued interest (2.00% and 2.53% maturing between October 24, 2009 and December 22, 2009)	<u>18 168 177</u>	<u>11 508 241</u>
	<u>\$18 168 675</u>	<u>\$11 520 735</u>
Liabilities		
Current liabilities		
Bank transfer	\$94	
Researcher-scholarship recipient payable		\$12 098
Administrative expenses payable	856	2 082
Fund balance	<u>18 167 725</u>	<u>11 506 555</u>
	<u>18 168 675</u> \$	<u>11 520 735</u> \$

14. RELATED PARTY TRANSACTIONS

The Fonds is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

15. COMMITMENTS

The Fonds is committed under long-term leases expiring on various dates up to March 15, 2012 for administrative offices and photocopiers. These leases include a 10-year renewal option.

The rental and photocopier leasing costs for the year ended March 31, 2009 totalled \$754 087. Minimum lease payments for the next three fiscal years are:

2010	\$792 812
2011	801 372
2012	<u>203 279</u>
	<u>\$1 797 463</u>

16. FUTURE FRINGE BENEFITS**Pension plan**

Fonds' staff participates in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2009, the Fonds' RREGOP contribution remained 8.19% of the contributory payroll and that of the PPMP 10.54%.

The Fonds' contributions charged to the year-end statement totalled \$120 416 (2008: \$89 128). Its liability towards these Government plans is restricted to its employer contributions.

17. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Fonds de la recherche en santé du Québec were prepared by management, which is responsible for their preparation, presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the finance committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the finance committee to discuss any matter related to the audit.

Yves Joannette
President-Chief Executive Officer

Gilbert Tordjman
Assistant to the Chief Executive Officer

Montréal, May 8, 2009

FONDS DE LA RECHERCHE EN SANTÉ DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds de la recherche en santé du Québec as at March 31, 2009 and the statements of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fonds as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 8, 2009

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES
(R.S.Q., c. A-10)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Travel agents' customers' contributions	\$10 872 208	\$11 006 515
Wholesalers' contributions		1 654 424
Investment income	446 547	1 236 536
Cancelled contributions (Note 4)	<u>81</u>	<u>6 856</u>
	<u>11 318 836</u>	<u>13 904 331</u>
EXPENSES		
Net claims and trust charges	445 334	(162 675)
Administrative costs – Office de la protection du consommateur	235 000	124 434
– Other	85 636	163 941
Interest on long-term debt		70 204
Decrease in fair value of participation deposits in a Caisse de dépôt et placement du Québec special fund	<u>5 057 142</u>	
	<u>5 823 112</u>	<u>195 904</u>
EXCESS OF REVENUES OVER EXPENSES	5 495 724	13 708 427
OPENING CUMULATED SURPLUS	<u>32 144 638</u>	<u>18 436 211</u>
Adjustment related to adoption of an accounting standard at April 1, 2008 (Note 3)	<u>762 496</u>	
CLOSING CUMULATED SURPLUS	<u><u>\$38 402 858</u></u>	<u><u>\$32 144 638</u></u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

BALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$763 257	\$635 237
Demand deposits in the Caisse de dépôt et placement du Québec		
General Fund	1 801 019	3 302 496
Investment income receivable	95 485	128 380
Accounts receivable (Note 5)	<u>2 538 654</u>	<u>2 609 346</u>
	5 198 415	6 675 459
Participation deposits in a Caisse de dépôt et placement du Québec special fund (Note 6)	<u>33 709 035</u>	<u>26 035 214</u>
	<u><u>\$38 907 450</u></u>	<u><u>\$32 710 673</u></u>
LIABILITIES		
Current liabilities		
Claims and expenses payable	\$504 592	\$551 683
Basic contributions (Note 7)		14 352
	<u>504 592</u>	<u>566 035</u>
CUMULATED SURPLUS	<u>38 402 858</u>	<u>32 144 638</u>
	<u><u>\$38 907 450</u></u>	<u><u>\$32 710 673</u></u>

The notes are an integral part of these financial statements.

Louis Borgeat
President, Office de la
protection du consommateur

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$5 495 724	\$13 708 427
Items not affecting cash on hand		
Decrease in fair value of participation deposits in a Caisse de dépôt et placement du Québec special fund	5 057 142	
Capitalization of interest on demand deposits in the Caisse de dépôt et placement du Québec General Fund	(500 521)	(1 150 157)
Change in non-cash items related to operations		
Investment income receivable	32 895	(29 296)
Accounts receivable	70 692	335 333
Claims and expenses payable	(47 091)	(609 853)
	4 613 117	(1 453 973)
Cash flows from operating activities	10 108 841	12 254 454
INVESTMENT ACTIVITIES		
Acquisition of demand deposits in the Caisse de dépôt et placement du Québec General Fund	(10 262 354)	(8 500 000)
Proceeds from sale of demand deposits in the Caisse de dépôt et placement du Québec General Fund	12 264 352	6 649 226
Acquisition of participation deposits in a Caisse de dépôt et placement du Québec special fund	(12 264 352)	(6 649 226)
Proceeds from sale of participation deposits in a Caisse de dépôt et placement du Québec special fund	295 885	
Decrease in basic contributions refunded in advance		25 000
Cash flows for investment activities	(9 966 469)	(8 475 000)
FINANCING ACTIVITIES		
Long-term debt repayment		(2 400 000)
Basic contributions repayment	(14 352)	(1 540 823)
Cash flows for financing activities	(14 352)	(3 940 823)
CHANGE IN CASH AND CASH EQUIVALENTS	128 020	(161 369)
OPENING CASH AND CASH EQUIVALENTS	635 237	796 606
CLOSING CASH AND CASH EQUIVALENTS	\$763 257	\$635 237
INTEREST PAID IN FISCAL YEAR		\$70 204

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. CONSTITUTION, PURPOSE AND FINANCING

The Fonds d'indemnisation des clients des agents de voyages (Fund) was set up on November 11, 2004 by the *Regulation respecting travel agents* under the *Travel Agents Act* (R.S.Q., c. A-10, r. 1), administered by the President of the Office de la protection du consommateur, to guarantee compensation or refunds for customers of a travel agent required to contribute to the Fund, if the travel agent's individual security is insufficient.

The amounts required for Fund operations come 1) from the customers of retail travel agents, as specified in section 39 of the Regulation, and 2) from wholesale travel agents, as specified in section 41 of the Regulation.

2. ACCOUNTING POLICIES

Preparation of the Fund's financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which estimates were used are the fair value of financial instruments and claims payable. Real results may differ from the best estimates by the Office de la protection du consommateur's general secretary.

Revenue reporting

Travel agents' customers' and wholesalers' contributions are posted to revenues when received or receivable if the amount receivable can be reasonably estimated and it is reasonably certain that it will be received.

Net claims and trust fees

Individual losses are estimated for each claim and a provision is established. The estimates are revised and updated regularly and any resulting adjustment is included in the result for the fiscal year in which it is discovered.

Administrative expenses

Administrative expenses include expenses related to investment as well as recovery costs and disbursement operations and transaction reporting, which are invoiced by the Office de la protection du consommateur (OPC). Costs invoiced by the OPC comprise salaries and other related costs.

Financial instruments

a) Initial measurement

Financial instruments are reported at their fair value the date of the transaction.

b) Category of financial instrument and subsequent measurement

Assets and liabilities held for transaction purposes

The assets and liabilities held for transaction purposes are financial instruments acquired primarily for resale in the short term for profit or that belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking. This category also includes assets and liabilities not respecting the above-mentioned criteria can be irrevocably designated as held by the Fund for transaction purposes.

Assets and liabilities held for transaction purposes are measured at their fair value. The gains and losses resulting from their reassessment at fair value are reported under results.

The Fund has classified cash and demand deposits in the Caisse de dépôt et placement du Québec General Fund as assets and liabilities held for transaction purposes. Income investment receivable, accounts receivable, participation deposits in a Caisse de dépôt et placement du Québec special fund and claim and costs payable were also designated as held for transaction purposes.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Fair value

The fair value of financial instruments is the amount at which the financial instruments could be knowingly negotiated by the parties concerned. The fair value is established using prices from an active market. If this is not the case, the fair value is based on market prices prevailing for financial instruments with similar features and risk profiles or in-house or external measurement models using data that is observable on the market.

3. CHANGES IN ACCOUNTING POLICIES

On April 1, 2008, the following accounting standards released by the Canadian Institute of Chartered Accounts (CICA) were adopted: Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation".

These standards were applied prospectively without reworking the comparative financial statements.

Financial instruments – recognition and measurement

Financial assets, governed by Section 3855, are classified into one of the following categories: held for transaction purposes, available for sale, held until maturity or loans and receivables. Financial liabilities, governed by Section 3855, are classified into one of the following categories: held for transaction purposes, or other financial liabilities.

Section 3855 allows entities to designate any financial instrument as held for transaction purposes when it is initially recognized or when this standard is adopted regardless of whether the financial instrument corresponds to the definition of a financial instrument held for transaction purposes. Financial instruments classified as held for transaction purposes under the fair value measurement option must have a reliable fair value. Financial instrument classification is disclosed in Note 2.

Effect of adopting Section 3855

Fair value adjustments resulting from classifying certain assets as financial instruments as assets held for transaction purposes are recognized in the opening balance of the cumulated surplus at April 1, 2008 in keeping with the transitional provisions foreseen. The impact is a \$762 496 increase in the cumulated surplus.

Adjustments resulting from the adoption of Section 3855 can be summarized as follows:

	As at March 31, 2008	Effect of change in accounting policy	As at April 1, 2008
Current assets	\$6 675 459		\$6 675 459
Participation deposits in a Caisse de dépôt et placement du Québec special fund	26 035 214	\$762 496	26 797 710
	<u>\$32 710 673</u>	<u>\$762 496</u>	<u>\$33 473 169</u>
Liabilities	\$566 035		\$566 035
Cumulated surplus	32 144 638	\$762 496	32 907 134
	<u>\$32 710 673</u>	<u>\$762 496</u>	<u>\$33 473 169</u>

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

3. CHANGES TO ACCOUNTING POLICIES (cont'd)

Financial instruments – disclosures and presentation

Sections 3862 and 3863 define the standards for presenting financial instruments and specify the information to be provided in their regard. Adoption of these chapters is reflected in Note 8.

4. CANCELLED CONTRIBUTIONS

Cancelled contributions are basic contributions that travel agents who ceased operations failed to claim within the prescribed time frame

5. ACCOUNTS PAYABLE

	2009	2008
Travel agencies	\$2 180 242	\$2 462 961
Interim administrators	358 412	146 385
	<u>\$2 538 654</u>	<u>\$2 609 346</u>

6. PARTICIPATION DEPOSITS IN A CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC SPECIAL FUND

Participation deposits in a Caisse de dépôt et placement du Québec (CDPQ) special fund comprise units that are refunded with prior notice in accordance with the Caisse's terms of payment at the market value of the fund's net equity at months' end.

	2009	2008
Number of units	39 201	26 595
Cost of units	\$38 003 681	\$26 035 214
Fair value of units	\$33 709 035	\$26 797 710
Fair value per unit	\$860	\$1 008

Third-party and bank-sponsored assets-backed commercial papers (ABCPs) (information produced using the financial statements of special fund 332 of the Caisse de dépôt et placement du Québec)

The CDPQ established the fair value of participation deposits as March 31, 2009, considering a decline in value on investments it holds on the Canadian market for asset-backed commercial papers (ABCP) that were restructured.

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

6. PARTICIPATION DEPOSITS IN A CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC SPECIAL FUND (cont'd)

Restructuring efforts

The efforts to restructure third-party ABCPs begun in August resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

Fair value establishment

Given that, on March 31, 2009, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at March 31, 2009. Based on the information available at March 31, 2009, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan's special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

Effect on the results of the Caisse de dépôt et placement du Québec special fund

For the fiscal year ended March 31, 2009, the share in expenses attributed to the special fund is \$829 000 (2008: \$454 000) for an investment in ABCPs, via the CDP, of \$2 513 000 (2008: \$2 477 000). This share comprises:

- the share of the \$815 000 (\$365 000 in 2008) unrealized loss on these securities;
- the share in the interest income (charges) for third-party and bank-sponsored ABCPs minus reversal of interest paid to specialized portfolios of \$26 000 (\$78 000 in 2008);
- the share of the \$40 000 (\$11 000 in 2008) realized losses.

The estimated fair value of the CDP's ABCP investments at March 31, 2009 is unlikely to be an indication of the final or future fair value. While CDP management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDP management's best current estimates.

Review of the decline in value posted by the CDP will affect the future fair value of the participation deposits held by the special fund.

In its financial statements, the CDP also points out the contingencies resulting from the guarantees it issued for the purposes of ABCP restructuring. The special fund's share in these guarantees is \$1 328 000 (2008: \$1 013 000).

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

6. PARTICIPATION DEPOSITS IN A CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC SPECIAL FUND (cont'd)

Effect on the results of the Caisse de dépôt et placement du Québec special fund (cont'd)

Therefore, the share of unrealized losses on the ABCP attributed to the above-mentioned special fund includes \$124 000 relative for these ABCP-related guarantees (2008: \$75 000).

7. BASIC CONTRIBUTIONS

	2009	2008
Retailers		\$10 912
Wholesalers		3 440
		<u>\$14 352</u>

8. FINANCIAL INSTRUMENTS

Fair value

Financial instruments classified as assets or liabilities held for transaction purposes are reported at their fair value the date of the balance sheet and any change in fair value is posted to net results for the period in which these changes occurred.

Cash on hand, demand deposits in the Caisse de dépôt et placement du Québec's General Fund, investment income receivable, , accounts receivable, and claims and fees payable are reported at their fair value, which equals their book value, given that they mature in the near future.

The fair value of participation deposits in a Caisse de dépôt et placement du Québec special fund is established by the CDP by means of evaluation methods used on capital markets, such as actualization at current cash flow interest rates, stock prices on the main stock exchanges and those supplied by recognized stock brokers. Further, the CDP performs certain evaluations using common evaluation methods. Consequently, changes in fair value are reported under "Change in the fair value of a Caisse de dépôt et placement du Québec special fund" in the statement of operations.

Additional financial risk information

Credit risk

The Fund's exposure to credit risk corresponds to the book value of the financial asset items. The credit risk related to these assets is concentrated in a single area, namely the travel agent activity sector.

Management deems that the Fund is not exposed to a significant credit risk since it does business with a large number of clients, the majority of which remit payment of their contribution to the Fund by the prescribed deadline.

Analysis of age of receivables breaks down as follows:

	2009
Receivables not outstanding	\$2 435 385
Receivables outstanding	
Less than 30 days	\$13 521
30 to 60 days	14 501
More than 60 days	<u>75 247</u>
	<u>\$2 538 654</u>

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

8. FINANCIAL INSTRUMENTS (cont'd)

Additional financial risk information (cont'd)

Credit risk (cont'd)

No provision for bad debts was posted under bad debts at March 31, 2009 since the balance of debts outstanding for more than 60 days is not considered significant.

Interest rate risk

The interest rate risk defines the possibility of a financial instrument's fair value or future cash flows fluctuating due to changes in market interest rates. No sensitivity analysis was performed since a 0.5% change in the interest rate would not significantly affect the fiscal year's results.

At March 31, 2009, the Fund's exposure to interest rate risk can be summarized as follows:

Cash and cash equivalents:	interest-free
Demand deposits in the Caisse de dépôt et placement du Québec General Fund:	variable interest
Interest income receivable:	interest-free
Accounts receivable:	interest-free
Participation deposits in a Caisse de dépôt et placement du Québec special fund:	interest-free
Claims payable:	interest-free
Basic contributions:	interest-free

Liquidity risk

The liquidity risk represents the possibility that the Fund may be unable to amass the funds needed to honour its financial obligations at the appropriate time and under reasonable conditions.

To offset this risk, Fund liquidity requirement forecasts are performed monthly and the necessary transfers made to the CDP. To ensure that its liquidity requirements are covered, the Fund keeps \$1 million on average in its cash on hand to cover travel agency closures or defaulting by other service suppliers.

The Fund is able to honour liabilities requiring disbursements in the short and long term. The Fund generally pays its receivables within 30 days.

Market risk

The market risk represents the risk of financial loss resulting from a fluctuation in the value of financial instruments due to changes in market parameters, notably interest rates, exchange rates, stock market prices and volatility.

To manage this risk, the Fund has an agreement with the CDP and an investment policy stipulating the management framework for the amounts deposited. This policy defines the general standards for breaking down the asset, by defining the reference portfolio and translating the Fund's needs regarding expected yield and acceptable risk in the financial markets context. It also sets the limits for asset breakdown deviations the CPD can conduct in its active management as well as the Fund's expectations for added value in comparison to the reference portfolio selected.

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

8. FINANCIAL INSTRUMENTS (cont'd)

Additional financial risk information (cont'd)

Market risk (cont'd)

The CDP discloses the following market risk management information in its audited financial statements for special fund 333.

“Market risk at the Caisse is measured using the method known as Value at Risk (VaR), which is based on the statistical measurement of the volatility of the market value of each position and its correlations. VaR is a statistical technique used to determine the worst loss expected during a given period based on a predetermined level of confidence. The Caisse uses a level of confidence of 84% in its calculations[...].

The Caisse determines the VaR for each instrument included in all the specialized portfolios and aggregates the information for the overall portfolio. The Caisse uses the historical simulation approach to estimating the VaR. A horizon of 800 days of observation of risk factors such as variations in exchange rates, interest rates and financial asset prices, is used to evaluate the volatility of returns and the correlation between various asset returns. The historical simulation approach is based essentially on the assumption that the future will be similar to the past. This approach requires that the series of historical data on all the risk factors used to estimate the returns on the instruments be available. In the absence of historical data, alternative methods are used.

The Caisse calculates two types of risk, the absolute risk and the active risk. The absolute risk, or absolute VaR, of the Caisse benchmark portfolio (target portfolio of depositors as a whole), is the result of the risk (volatility) of the benchmark indexes of the asset classes in the portfolio. For example, should depositors as a whole elect to increase the weight of equities in their benchmark portfolios, such risk would increase automatically due to the higher level of volatility of this asset class. Consequently, the expected absolute return would also increase. The absolute risk of the overall portfolio (comprised of the actual investments) equates the risk (volatility) of positions included in the overall portfolio. The absolute risk of the overall portfolio and that of the benchmark portfolio are calculated using the same method but they relate to different portfolios, the overall portfolio actually invested by the Caisse and the benchmark portfolio targeted by depositors.

The active risk, or VaR related to active management, represents the possibility that the Caisse record a return different from that of its benchmark portfolio as a result of its active management of the overall portfolio. The higher the active risk, the more the expected return from the overall portfolio will differ from the benchmark portfolio return.

The absolute risk of the Caisse's benchmark portfolio, the absolute risk of the overall portfolio and the active risk are measured on a regular basis [...].”

At March 31, 2009, the absolute risk and active risk for Fund 333 were 777 and 266 centesimal points respectively.

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fund is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fund did not do business with these related parties other than during the normal course of operations and under normal business conditions with the exception of administrative costs. The Office de la protection du consommateur licensing department assumes all of the Fund's administrative costs and re-invoices them using a breakdown method based on real cost. At March 31, 2009, the amounts re-invoiced totalled \$235 000 (\$124 434 at March 31, 2008).

FONDS D'INDEMNISATION DES CLIENTS DES AGENTS DE VOYAGES**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'indemnisation des clients des agents de voyages (Fund) were prepared by Office de la protection du consommateur (OPC) management, which is responsible for their preparation and presentation, the significant estimates and judgments included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual management report of the Office de la protection du consommateur is consistent with that presented in the financial statements.

To fulfil its mandate, the OPC General Secretary maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The General Secretary recognizes that it is responsible for conducting the Fund's affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the General Secretary to discuss any matter related to the audit.

André Derome
Coordinator, Licensing Department

Louis Borgeat
President of the Office de la
protection du consommateur

Québec, June 12, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation des clients des agents de voyages (Fund) as at March 31, 2009 and the statements of results and cumulated surplus and cash flows for fiscal year then ended. These financial statements are the responsibility of the President of the Office de la protection du consommateur. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, significant estimates made by management and the overall financial statement presentation. It also includes an evaluation of the accounting principles followed and significant estimates made by the General Secretary of the Office de la protection du consommateur and an assessment of the financial statements' overall presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at March 31, 2009 and the results of its operations and cash flows for the fiscal year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes to accounting policies for financial instruments disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 12, 2009

FONDS D'INDEMNISATION DES SERVICES FINANCIERS
(R.S.Q., c. A-33.2)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Contributions	10 928	6 432
Interest	4	111
Subrogation revenues	<u>387</u>	<u>338</u>
	<u>11 319</u>	<u>6 881</u>
EXPENSES		
Compensation (Note 10)	4 617	1 781
Salaries and fringe benefits (Note 3)	674	790
Travel expenses	8	3
Professional services	236	287
Administrative expenses (Note 4)	872	910
Financial expenses	518	578
Other	<u>22</u>	<u>4</u>
	<u>6 947</u>	<u>4 353</u>
EXCESS OF REVENUES OVER EXPENSES	<u>4 372</u>	<u>2 528</u>

The notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FUND BALANCE
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	(31 965)	(34 493)
Excess of revenues over expenses	<u>4 372</u>	<u>2 528</u>
CLOSING BALANCE (Note 5)	<u>(27 593)</u>	<u>(31 965)</u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	At March 31, 2009	At March 31, 2008
ASSETS		
Current assets		
Cash on hand	78	7
Investments (Note 7)	150	150
Accounts receivable (Note 8)	634	904
Prepaid expenses	7	7
	<u>869</u>	<u>1 068</u>
Notes receivable in subrogation, interest-free, maturing in 2015	<u>90</u>	<u>134</u>
	<u>959</u>	<u>1 202</u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 9)	59	378
AMF advance, bearing interest at rates varying from 2.90% to 3.60%, repayable based on liquid asset surpluses released	6 785	8 614
Provision for compensation (Note 10)	14 322	10 928
Deferred revenue	7 386	6 705
	<u>28 552</u>	<u>26 625</u>
AMF advance, bearing interest at rates varying from 4.53% to 4.88% in 2008, repayable based on liquid asset surpluses released		<u>6 542</u>
	<u>28 552</u>	<u>33 167</u>
FUND BALANCE (Note 5)	<u>(27 593)</u>	<u>(31 965)</u>
	<u>959</u>	<u>1 202</u>

CONTINGENCIES (Note 11)

The notes are an integral part of these financial statements.

Jean St-Gelais
President-Chief Executive Officer
Autorité des marchés financiers (AMF)

Linda Levasseur
Director General, Administration
Autorité des marchés financiers

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	4 372	2 528
Change in non-cash items related to operations		
Accounts receivable	270	696
Prepaid expenses		1
Items receivable in subrogation	44	(111)
Accounts payable	(319)	26
Provision for compensation	3 394	(29 843)
Deferred revenues	681	3 488
	4 070	(25 743)
Cash flows related to operating activities	8 442	(23 215)
INVESTMENT ACTIVITIES		
Acquisition of investments	(150)	(1 300)
Proceeds from sale of investments	150	9 364
Cash flows related to investment activities		8 064
FINANCING ACTIVITIES		
AMF advance		22 231
Reimbursement of AMF advance	(8 371)	(7 075)
Cash flows related to financing activities	(8 371)	15 156
NET CHANGE IN CASH AND CASH EQUIVALENTS	71	5
OPENING CASH AND CASH EQUIVALENTS	7	2
CLOSING CASH AND CASH EQUIVALENTS	78	7
Cash and cash equivalents include:		
Cash on hand	78	7

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Fonds d'indemnisation des services financiers (Fund) is a fund incorporated under the *Act respecting the distribution of financial products and services*, assented to on June 20, 1998 by the National Assembly. It replaced corresponding funds created under the *Act respecting market intermediaries* on October 1, 1999.

On February 1, 2004, the Fonds d'indemnisation des services financiers was replaced by the Autorité des marchés financiers (AMF) under the *Act respecting the Autorité des marchés financiers*, which acquired its rights and obligations. The Fonds d'indemnisation des services financiers is now an appropriated heritage managed by the AMF separately from its other assets.

On September 21, 2005, the Government authorized the AMF to incorporate into the Fonds d'indemnisation des services financiers amounts from the Fonds d'indemnisation en assurance de personnes, Fonds d'indemnisation en assurance de dommages and Fonds d'indemnisation des planificateurs financiers. Until that time, the AMF managed these three heritages resulting from the former *Act respecting market intermediaries* separately. Compensation resulting from fraud committed before October 1999 was paid from these heritages in keeping with their respective jurisdictions. Henceforth, all compensation is paid from the Fonds d'indemnisation des services financiers regardless of the year the fraud occurred.

The AMF, via the Fonds d'indemnisation des services financiers, administers amounts deposited with the Fund. Its mission is also to compensate individuals who have been victims of fraud, fraudulent tactics or embezzlement for which a firm, independent representative or an independent company may be held liable in connection with its activities. It is also responsible for taking over claims on file with the former funds and deciding whether claims resulting from acts committed between September 1, 1991 and September 30, 1999 are eligible for payment in accordance with the regulations under the *Act respecting market intermediaries*.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management used estimates is the provision for compensation. Real results may differ from these estimates.

As Fund trustee, the AMF chose, under the option issued by the Accounting Standards Board in September 2008 for entities with no public accountability obligation not to apply the current standards governing financial instruments, notably Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". New standards governing financial instruments will be released by CICA later and applied by the Fund once they are in effect.

Investments

Investments are recorded at cost minus any permanent loss in value.

Proceeds reporting

Proceeds from dues

Proceeds from dues are recorded according to the period they cover. Amounts invoiced for a period exceeding fiscal year-end are posted to deferred income.

Subrogation revenue

Subrogation revenue is reported when it is reasonably certain that these amounts will be recovered.

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Cash and cash equivalents**

It is the Fund's policy to present bank balances and investments maturing within three months of their acquisition date as cash and cash equivalents.

3. SALARIES AND FRINGE BENEFITS

The AMF made human resources available to the Fund for the management of its activities' current operations. The costs related to this transaction, which occurred in the normal course of activities and was measured at exchange value, were posted to the Fund.

4. ADMINISTRATIVE EXPENSES

The AMF made human resources, capital assets and office space available to the Fund. During the fiscal year, it charged \$872 (2008: \$910) for use of these resources. These transactions occurred in the normal course of activities and were measured at exchange value, in keeping with the agreement between the parties.

5. FUND BALANCE

An amendment in December 2004 to section 278 of the *Act respecting the distribution of financial products and services* established that, should assets be insufficient, a contribution would have to be determined to offset this shortfall over a maximum 5-year period.

6. FINANCIAL INSTRUMENTS

Cash, term deposits, accounts payable and accounts receivable are financial instruments whose fair value resembles their book value, given that they mature in the near future and based on the conditions related to them.

The fair value of receivables in subrogation could not be determined since it is virtually impossible to find financial instruments with essentially the same economic characteristics on the market. The fair value of the AMF advance cannot reasonably be measured given the absence of a market.

7. INVESTMENTS

	At March 31, 2009	At March 31, 2008
Term deposits, bearing interest at rate of 2.65%, maturing in April 2009	150	150

8. ACCOUNTS RECEIVABLE

	At March 31, 2009	At March 31, 2008
Contributions receivable	283	836
AMF (current operations)	287	
Other	60	62
Accrued interest	4	6
	634	904

FONDS D'INDEMNISATION DES SERVICES FINANCIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

9. EXPENSES PAYABLE

	At March 31, 2009	At March 31, 2008
Supplier accounts and accrued expenses	59	92
AMF (current operations)	<u> </u>	<u>286</u>
	<u>59</u>	<u>378</u>

10. COMPENSATION AND PROVISION FOR COMPENSATION

The amount of the provision for compensation for reported and unreported disasters, established by actuaries mandated by the AMF, reflects known facts and the interpretation of circumstances based on experience in similar files, historical disaster settlement trends, settled disasters, the number of unsettled disasters and disaster frequency.

The following table summarizes the change in the provision for compensation:

	At March 31, 2009	At March 31, 2008
Opening balance	10 928	40 771
Annual expenses	4 617	1 781
Claims settled during the year	<u>(1 223)</u>	<u>(31 624)</u>
Closing balance	<u>14 322</u>	<u>10 928</u>

11. CONTINGENCIES

As Fund trustee, the AMF is subject to various lawsuits with regard to decisions to refuse compensation in the context of Fund activities. Since it is not possible to evaluate the amount the Fund might have to pay, no provision has been made in the financial statements. However, the AMF feels that these lawsuits are unfounded and that the outcomes of these claims will not significantly impact its financial position.

FONDS D'INDEMNISATION DES SERVICES FINANCIERS**TRUSTEE'S REPORT**

The Autorité des marchés financiers (AMF) is the trustee for the Fonds d'indemnisation des services financiers (Fund). The Fund's financial statements were prepared by AMF management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the AMF.

The AMF recognizes that it is responsible for conducting the Fund's affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Jean St-Gelais
President-Chief Executive Officer
Autorité des marchés financiers

Linda Levasseur
Director General, Administration
Autorité des marchés financiers

Québec, June 10, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Fonds d'indemnisation des services financiers (Fund) as at March 31, 2009 and the statements of operations, changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of AMF management, as Fund trustee. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at and March 31, 2009 and the results of their operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by *the Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 10, 2009

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER
(R.S.Q., c. C-73.1)

STATEMENT OF OPERATIONS
for the year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
REVENUES		
Dues	\$289 892	\$275 350
Investment income	148 418	40 293
Subrogation revenue	<u>31 933</u>	<u>5 332</u>
	<u>470 243</u>	<u>320 975</u>
EXPENSES		
Management fees	158 065	126 521
Provision for indemnities (Note 6)	65 558	394 509
Professional fees	107 891	76 043
Communication and public relations	72 052	88 384
Travel and accommodation expenses	14 910	10 793
Office expenses	9 685	9 462
Directors' fees	8 714	7 950
Publications	<u>4 264</u>	<u>5 565</u>
	<u>441 139</u>	<u>719 227</u>
EXCESS REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	<u><u>\$29 104</u></u>	<u><u>\$(398 252)</u></u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
OPENING CUMULATED SURPLUS	\$2 188 906	\$2 587 158
Excess revenues over expenses (expenses over revenues)	<u>29 104</u>	<u>(398 252)</u>
CLOSING CUMULATED SURPLUS	<u><u>\$2 218 010</u></u>	<u><u>\$2 188 906</u></u>

The notes are an integral part of these financial statements.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**BALANCE SHEET**
as at December 31, 2008

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash on hand	\$49 051	
Investments (Note 4)	2 581 927	\$2 724 138
Accounts receivable	219 354	206 750
Prepaid expenses	<u>5 305</u>	<u>5 272</u>
	<u><u>\$2 855 637</u></u>	<u><u>\$2 936 160</u></u>
LIABILITIES		
Bank overdraft (Note 5)		\$12 330
Expenses payable	\$84 554	158 751
Revenue collected in advance	237 470	219 410
Provision for indemnities (Note 6)	<u>315 603</u>	<u>356 763</u>
	637 627	747 254
CUMULATED SURPLUS (Note 8)	<u>2 218 010</u>	<u>2 188 906</u>
	<u><u>\$2 855 637</u></u>	<u><u>\$2 936 160</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Raymond Desbiens, Director
 Marcel Le Houillier, Director

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO THE FINANCIAL STATEMENTS December 31, 2008

1. CONSTITUTION AND PURPOSE

The Fonds d'indemnisation du courtage immobilier (Fonds) was established under the *Real Estate Brokerage Act* (R.S.Q., c. C-73.1) to administer a fund to guarantee the liability that may be incurred by a broker or an agent owing to fraud, dishonest transactions, or misappropriation of funds or other property held in a trust account.

The Fonds is constituted, in part, of dues paid by members of the Association des courtiers et agents immobiliers du Québec.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Fonds' cash flows during the year.

FINANCIAL INSTRUMENTS

Initial measurement

Financial instruments are reported at their fair value the date of the transaction.

Categories of financial instruments and subsequent measurement

Assets held for transaction purposes

Assets held for transaction purposes are assets instruments acquired by the Fonds primarily for resale in the short term to make a profit. They belong to a portfolio of identified financial instruments managed together and presenting indications of a recent short-term profit profile. They include assets and liabilities not respecting the above-mentioned criteria but irrevocably designated by the Fonds as held for transaction purposes.

Assets held for transaction purposes are measured at their fair value and the gains and losses resulting from their remeasurement at fair value are posted to net operations.

The Fonds also classified cash and bond investments in this category.

Loans and receivables

Loans and receivables do not include debt securities and are measured at cost after amortization using the effective interest-rate method.

The Fonds classified receivables in this category.

Other financial liabilities

Other financial liabilities include all non-derivative liabilities not classified as liabilities held for transaction purposes. They are measured at cost, after amortization using the effective interest-rate method.

The Fonds classified expenses payable in this category.

Fair value

The fair value is the amount of the consideration decided on by competent parties acting freely under fully competitive conditions.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**NOTES TO THE FINANCIAL STATEMENTS**
December 31, 2008

3. NEW ACCOUNTING STANDARDS

In the coming fiscal year, the Centre will apply the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations for Section 1535, "Capital Disclosures", Section 3031, "Inventories", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements. They have no impact on the Fonds' results.

Section 1535 defines information to disclose about the objectives, policies and processes used by the entity to manage its capital, quantitative data on the items the entity considers capital, the entity's compliance with requirements related to capital and the consequences of not complying with the requirements in question.

Sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and extent of the risks arising from financial instruments for the entity and how it manages these risks. They replace Section 3861, "Financial Instruments – Disclosure and Presentation".

4. FINANCIAL INSTRUMENTS**Fair value**

The fair value of cash on hand, accounts receivable and accounts payable corresponds approximately to their book value, given that they are due in the short-term.

Investments comprising primarily municipal, provincial and university bonds bear interest at rates varying between 2.56 and 6.10% and mature between December 2010 and September 2017. The investments' fair value was determined in keeping with market prices including accrued interest.

The change during the fiscal year in the fair value of financial assets designated by the Fonds as held for transaction purposes, posted to investment income, is a positive amount of \$44 807.

Credit risk

The financial assets' book value represents the Fonds' maximum credit risk exposure.

The Fonds has defined an investment policy designed to govern asset management. Investments comprise municipal, provincial and university bonds. Further, the Fonds measures accounts receivable and reports a provision for losses when they are deemed unrecoverable. At December 31, 2008, no receivable is considered outstanding beyond normal standards and no provision for bad debts was posted during the fiscal year.

Interest rate risk

Investments bear interest at rates varying from 2.56% to 6.10%. Based on balances at December 31, 2008, a 1% decrease in the interest rate would imply a \$26 000 decrease in excess revenues over expenses. A 1% interest rate increase would have an equal and opposite impact on excess revenues over expenses.

5. BANK OVERDRAFT

The Fonds has an authorized margin loan bearing interest at the financial institution's prime rate plus 1.5% and underwritten by certain investments.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER

NOTES TO THE FINANCIAL STATEMENTS December 31, 2008

6. PROVISION FOR INDEMNITIES

The Fonds' policy, on receiving a duly sworn claim, is to provide 25% of the claim amount up to a maximum of \$3 750. This provision is maintained until the Fonds' Board of Directors makes its final decision.

	2008	2007
Opening balance	\$356 763	\$207 841
Provision for indemnities	283 590	516 471
Cancellation of claims from past years	(218 032)	(121 962)
	65 558	394 509
Claim payment	(106 718)	(245 587)
Closing balance	<u>\$315 603</u>	<u>\$356 763</u>

7. INFORMATION REGARDING CAPITAL

The Fonds' capital management goal consists in having sufficient liquid assets to enable it to fund its operating activities and pay the indemnities resulting from admissible claims produced against a broker or an agent.

The Fonds is funded primarily through the annual contributions of Québec's real estate brokers and by the interest generated by the amounts constituting it. The Fonds has defined an investment policy designed primarily to protect its capital, to align the terms of its investments with its financial commitments and to diversify its investments.

The Fonds maintains a minimum Working Fund of \$500 000 required under outside rules.

8. CUMULATED SURPLUS

Pursuant to the Regulation respecting the Fonds d'indemnisation du courtage immobilier, the Minister responsible for the administration of the Real Estate Brokerage Act may authorize the Fonds' Board of Directors to utilize, under certain conditions, interest yielded on the sums of money constituting the Fonds for purposes related to brokerage and promoting public protection. At December 31, 2008, the cumulated surplus includes interest of \$758 562 (2007: \$610 144).

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fonds is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

FONDS D'INDEMNISATION DU COURTAGE IMMOBILIER**MANAGEMENT'S REPORT**

The financial statements of the Fonds d'indemnisation du courtage immobilier (Fonds) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Fonds' financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Me Jean-François Savoie
Fund Secretary

Nadine Corbeil, CA
Acting Fund Comptroller

Brossard, February 19, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'indemnisation du courtage immobilier as at December 31, 2008 and the statements of results and cumulated surplus for the year then ended. These financial statements are the responsibility of the Fonds' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, February 19, 2009

GOODS AND SERVICES TAX TRUST FUND
BALANCE SHEET
 as at March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Advances to the Consolidated Revenue Fund, interest-free, no terms of repayment	<u>257 205</u>	<u>196 672</u>
LIABILITIES		
Goods and services tax payable to the Government of Canada	<u>257 205</u>	<u>196 672</u>

Daniel Prud'homme
 Administrator,
 Goods and Services Tax Trust Fund

Francine Martel-Vaillancourt
 Deputy Minister of Revenu Québec

STATEMENT OF CHANGE IN DEPOSITS
 for the fiscal year ended March 31, 2009
 (in thousands of dollars)

	<u>Balance at March 31, 2008</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at March 31, 2009</u>
GST collected	196 672	7 179 568	7 119 035	257 205
Credits for inputs reimbursed		4 167 628	4 167 628	
	<u>196 672</u>	<u>11 347 196</u>	<u>11 286 663</u>	<u>257 205</u>

GOODS AND SERVICES TAX TRUST FUND

NOTES TO THE FINANCIAL STATEMENT

March 31, 2009

(in thousands of dollars)

1. NATURE OF THE GOODS AND SERVICES TAX TRUST FUND

The Goods and Services Tax Trust Fund comprises amounts collected and credits for inputs administered for the Government of Canada as goods and services tax under an agreement concluded with the Gouvernement du Québec.

2. ACCOUNTING POLICIES

The financial statements were prepared by Revenu Québec in keeping with Canadian generally accepted accounting principles.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES
(R.S.Q., c. M-30.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES (Note 4)	\$49 363 974	\$44 517 252
INTEREST AND OTHER INCOME	1 280 461	1 307 594
	50 644 435	45 824 846
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	31 448 759	29 125 642
Scholarships	14 715 229	11 306 103
	46 163 988	40 431 745
	4 480 447	5 393 101
OPERATING EXPENSES (Note 5)	4 156 532	3 939 087
EXCESS REVENUES OVER EXPENSES	323 915	1 454 014
OPENING CUMULATED SURPLUS	7 173 559	5 719 545
CLOSING CUMULATED SURPLUS (Note 6)	\$7 497 474	\$7 173 559

The notes are an integral part of these financial statements.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$732 564	\$598 788
Short-term investments, rate varying between 1.30% and 3.20%, maturing from June 2009 to January 2010	24 012 022	19 921 875
Accrued interest	261 444	
Subsidies and other accounts receivable (Note 7)	893 022	1 261 595
Prepaid expenses	119 882	64 963
	<u>26 018 934</u>	<u>21 847 221</u>
Sums held on behalf of granting agencies (Note 8)	1 238 612	1 284 104
Capital assets (Note 9)	<u>301 825</u>	<u>507 367</u>
	<u><u>\$27 559 371</u></u>	<u><u>\$23 638 692</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$399 437	\$294 030
Deferred subsidies from agencies	5 640 810	7 264 664
Deferred Gouvernement du Québec subsidies	12 783 059	7 621 851
Short-term portion of long-term debt	795	795
	<u>18 823 306</u>	<u>15 181 340</u>
Amounts payable on behalf of granting agencies (Note 8)	<u>1 238 591</u>	<u>1 283 793</u>
	20 061 897	16 465 133
CUMULATED SURPLUS (Note 6)	<u>7 497 474</u>	<u>7 173 559</u>
	<u><u>\$27 559 371</u></u>	<u><u>\$23 638 692</u></u>

COMMITMENTS (Note 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre Prémont
Jacques A. de Guise

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess revenues over expenses	\$323 915	\$1 454 014
Items not affecting cash and cash equivalents		
Amortization of capital assets	298 295	400 181
	622 210	1 854 195
Change in non-cash items		
Accrued interest	(261 444)	438 107
Subsidies and other accounts receivable	368 573	1 000 974
Prepaid expenses	(54 919)	(11 883)
Sums held on behalf of granting agencies	45 492	28 870
Accounts payable and accrued liabilities (Note 9)	114 194	(191 158)
Deferred subsidies from agencies	(1 623 854)	(345 529)
Deferred government subsidies	5 161 208	6 138 556
Amounts payable on behalf of granting agencies	(45 202)	(32 617)
	3 704 048	7 025 320
Cash flows related to operating activities	4 326 258	8 879 515
INVESTMENT ACTIVITIES		
Acquisition of investments	(108 594 104)	(104 919 448)
Sale of investments	104 503 957	94 997 573
Acquisition of capital assets (Note 9)	(101 540)	(437 217)
Cash flows related to investment activities	(4 191 687)	(10 359 092)
FINANCING ACTIVITIES		
Cash flows related to financing activities:		
Long-term debt repayment	(795)	(2 281)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133 776	(1 481 858)
OPENING CASH AND CASH EQUIVALENTS	598 788	2 080 646
CLOSING CASH AND CASH EQUIVALENTS	\$732 564	\$598 788

The notes are an integral part of these financial statements.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2009

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la nature et les technologies (Fonds) was established under the *Act respecting the Ministère du Développement économique, de l'Innovation et de l'Exportation* (R.S.Q., c. M-30.01) to promote and provide financial assistance for research and dissemination of knowledge in the natural sciences, mathematics and engineering for research training by granting proficiency scholarships to graduate students and individuals conducting post-graduate research, professional development scholarships to those wishing to re-enter research circles and subsidies to enable college professors involved in research activities to reduce their teaching load.

The Fonds also administers university graduate student scholarship programs and subsidy programs. It establishes any partnership required with the universities, colleges, industry, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fonds québécois de la recherche sur la nature et les technologies is a mandatary of the Gouvernement du Québec and, as such, does not pay federal or provincial income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the AEE gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Subsidies from the Gouvernement du Québec and other agencies

Subsidies from the Gouvernement du Québec and other agencies are reported as revenues for the fiscal year in which the related expenses were incurred. Unappropriated subsidies are posted to revenues when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are recorded once they have been authorized and the recipients have met the eligibility criteria. Cancellations or reimbursement of grants and scholarships awarded are reported in the fiscal year in which they are cancelled or reimbursed.

Investment income and short-term investments

Interest income is recorded according to the number of days the investment is held in the fiscal year. Short-term investments, composed primarily of bankers' acceptances and discount notes, are recognized at cost and market value.

Other revenues

Other revenues are recorded when the services are rendered to customers, when the selling price is, or can be, determined.

Cash and cash equivalents

It is the Fonds' policy to present bank balances and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets are recorded at cost and amortized over their estimated service life using the straight-line method and the following rates:

	Rate
Office furniture and equipment	20.00%
Data processing equipment	33.33%
Leasehold improvements	20.00%
Computer systems development	20.00%

Amortization of long-term assets

When the situation indicates that a capital asset no longer contributes to the Fonds' capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its net book value, its cost is reduced to reflect this decline. Net capital asset-related losses are posted to expenses in the statement of operations. At March 31, 2008 and 2009, no decline was posted.

Fringe benefits plan

The Fonds offers its employees a defined-benefit pension plan. Both the Fonds and participants contribute to the plan in equal amounts corresponding to 5% of each employee's wages. Each employee manages his or her investment choices individually.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, at the Government's request, the Fonds has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the Fonds' results or cumulated deficit.

The accounting policies affected by this change in the accounting framework are disclosed below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer systems development and application software are now presented under "Capital assets" rather than "Intangible assets".

4. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER AGENCIES

	2009	2008
Ministère du Développement économique, de l'Innovation et de l'Exportation *	\$43 644 761	\$40 250 823
Projets de recherche orientée partners	3 489 970	2 671 758
Partnership projects (CANTOR)	434 037	473 392
Other	1 795 206	1 121 279
	<u>\$49 363 974</u>	<u>\$44 517 252</u>

* Jointly-controlled related party

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. THE FONDS' OPERATING EXPENSES

	2009	2008
Salaries		
Wages	\$2 560 994	\$2 405 504
Training and professional development	24 612	14 566
Professional dues	3 584	1 679
	<u>2 589 190</u>	<u>2 421 749</u>
Services		
Fees	<u>382 869</u>	<u>297 857</u>
Office occupancy costs		
Rent paid to the Société immobilière du Québec	214 322	217 434
Insurance	18 447	19 996
Maintenance and repairs	118 667	107 224
Rental	2 197	4 715
	<u>353 633</u>	<u>349 369</u>
Communications	<u>84 253</u>	<u>94 215</u>
Transportation and accommodations	<u>284 799</u>	<u>214 561</u>
Other expenses		
Telecommunications	53 394	45 449
Photocopies	33 346	34 099
Mailing costs	31 231	32 406
Office expenditures	31 100	45 087
Other expenses	14 422	4 114
	<u>163 493</u>	<u>161 155</u>
Amortization of capital assets	<u>298 295</u>	<u>400 181</u>
	<u>\$4 156 532</u>	<u>\$3 939 087</u>

6. CUMULATED SURPLUS

The Board of Directors has reserved a portion of the surplus for awarding scholarships and grants, including a sum to meet the Fonds' commitments under the Projets de recherche orientée protocols and an amount for its partnership project (CANTOR) involving Québec's other two research support funds. The Fonds cannot use these amounts set aside for appropriations of inside origin for other purposes without the Board of Directors' prior consent. These appropriations break down as:

	2009	2008
Research scholarships and grants	\$6 084 050	\$5 262 332
Partnership project (CANTOR)	132 169	125 598
Unappropriated	<u>1 281 255</u>	<u>1 785 629</u>
	<u>\$7 497 474</u>	<u>\$7 173 559</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

7. SUBSIDIES RECEIVABLE AND OTHER RECEIVABLES

	2009	2008
Fonds québécois de la recherche sur la société et la culture *	\$267 283	\$105 559
Ministère du Développement économique, de l'Innovation et de l'Exportation *	121 625	
Fonds de la recherche en santé du Québec *	158 111	3 000
Ministère des Ressources naturelles et de la Faune *	303 600	675 000
Ministère de la Santé et des Services sociaux *		240 000
Ministère des Relations internationales *		100 000
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec *		90 000
Ministère du Développement durable, de l'Environnement et des Parcs *		30 000
Canadian Institutes of Health Research	32 023	18 036
Other	10 380	
	<u>\$893 022</u>	<u>\$1 261 595</u>

* Jointly-controlled related party

8. SUMS HELD ON BEHALF OF GRANTING AGENCIES

Under agreements with various agencies, the Fonds assumes certain operations related to the allocation of research grants in specific fields. The Fonds acts solely as an intermediary by providing expertise in this matter. Except for management fees, these operations are not shown in the Fonds' operating results.

The operations involving amounts payable related to these agreements break down as follows:

	Perspectives STS	Environnement	Cité de l'optique	Total
Opening balance	\$102 796	\$522 785	\$658 523	\$1 284 104
Increase				
Interest on bank deposits	1 440	11 837	14 914	28 191
	<u>104 236</u>	<u>534 622</u>	<u>673 437</u>	<u>1 312 295</u>
Decrease				
Research grants	65 833	6 431		72 264
Transfer of interest to Fonds	1 419			1 419
	<u>67 252</u>	<u>6 431</u>		<u>73 683</u>
Closing balance	<u>\$36 984</u>	<u>\$528 191</u>	<u>\$673 437</u>	1 238 612
Untransferred interest received				(21)
Amounts payable for subsidizing organizations				<u>\$1 238 591</u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**9. CAPITAL ASSETS**

	2009		2008
	Cost	Accumulated depreciation	Net
Office furniture and equipment	\$255 714	\$221 516	\$34 198
Data processing equipment	1 119 027	1 027 854	91 173
Leasehold improvements	382 961	370 274	12 687
Computer systems development	1 587 277	1 423 510	163 767
	<u>\$3 344 979</u>	<u>\$3 043 154</u>	<u>\$301 825</u>
			<u>\$507 367</u>

At March 31, 2009, the item "Accounts payable and accrued liabilities" included \$4 319 (2008: \$13 106) linked to the acquisition of capital assets.

10. CREDIT FACILITIES

The Fonds has credit facilities of up to \$10 000 000 with the Financing Fund until March 31, 2012. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2009 and 2008, these credit facilities were unused.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Fonds de la recherche en santé du Québec *	\$8 477	\$8 174
Suppliers	87 444	60 383
Salaries and vacation time payable	<u>303 516</u>	<u>225 473</u>
	<u>\$399 437</u>	<u>\$294 030</u>

* Jointly-controlled related party

12. COMMITMENTS

At March 31, 2009, the Fonds' commitments totalled \$44 539 543 (2008: \$31 185 836) for grants and \$13 854 934 (2008: \$11 647 080) for scholarships. Awarding of grants and scholarships, however, depends on the funds allocated by the National Assembly, with the exception of amounts reserved in the cumulated surplus.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements at exchange value, the Fonds is a related party to all Government, departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fonds did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not all shown separately in the financial statements

14. FUTURE FRINGE BENEFITS**Pension plan**

The supplemental pension plan for staff members of the Fonds pour la formation de chercheurs et l'aide à la recherche is a defined-contribution plan. The Fonds' liability towards this plan is restricted to its employer contributions. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement totalled \$90 450 (2008: \$85 580) and represent current service pension costs.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

15. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

MANAGEMENT'S REPORT

The financial statements of the Fonds québécois de la recherche sur la nature et les technologies (Fonds) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fonds recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management performs its financial reporting duties, and approves the financial statements. It is assisted in its duties by the auditing committee, some of whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Centre's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Pierre Prémont
President and Chief Executive Officer

Lucie Girard
Director of Administration and Evaluation

Québec, May 25, 2009

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA NATURE ET LES TECHNOLOGIES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la nature et les technologies as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Fonds management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fonds' financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 25, 2009

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE
(R.S.Q., c. M-30.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER ORGANIZATIONS (Note 4)	\$49 791 242	\$48 752 430
INTEREST AND OTHER INCOME	1 185 173	1 493 455
	50 976 415	50 245 885
GRANTS AND SCHOLARSHIPS AWARDED		
Research grants	30 883 768	30 981 611
Scholarships	16 392 571	13 631 147
	47 276 339	44 612 758
	3 700 076	5 633 127
OPERATING EXPENSES (Note 5)	4 137 244	3 958 434
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(437 168)	1 674 693
OPENING CUMULATED SURPLUS	7 387 372	5 712 679
CLOSING CUMULATED SURPLUS (Note 6)	\$6 950 204	\$7 387 372

The notes are an integral part of these financial statements.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$365 581	\$1 009 515
Short-term investments, rate varying from 2.85% to 3.20%, maturing between June and November 2009	20 025 023	17 534 548
Accrued interest	340 940	
Subsidies and other accounts receivable (Note 7)	2 972 568	723 828
Prepaid expenses	21 632	8 252
	<u>23 725 744</u>	<u>19 276 143</u>
Capital assets (Note 8)	<u>310 439</u>	<u>400 855</u>
	<u><u>\$24 036 183</u></u>	<u><u>\$19 676 998</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$575 802	\$395 973
Deferred subsidies from organizations	10 786 198	9 193 920
Deferred Gouvernement du Québec subsidies	5 636 655	2 564 098
Short-term portion of long-term debt (Note 11)	51 332	48 311
	<u>17 049 987</u>	<u>12 202 302</u>
Long-term debt (Note 11)	<u>35 992</u>	<u>87 324</u>
	<u>17 085 979</u>	<u>12 289 626</u>
CUMULATED SURPLUS (Note 6)	<u>6 950 204</u>	<u>7 387 372</u>
	<u><u>\$24 036 183</u></u>	<u><u>\$19 676 998</u></u>
COMMITMENTS (Note 12)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Babin
Jean-Noël Tremblay

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
(Deficiency) excess of revenue over expenditure	\$(437 168)	\$1 674 693
Items not affecting cash on hand		
Amortization of capital assets	184 973	249 735
	(252 195)	1 924 428
Change in non-cash items		
Accrued interest	(340 940)	572 873
Subsidies and other accounts receivable	(2 248 740)	1 324 778
Prepaid expenses	(13 380)	23 878
Accounts payable and accrued liabilities (Note 8)	190 603	(14 385)
Deferred subsidies from organizations	1 592 278	(168 427)
Deferred Gouvernement du Québec subsidies	3 072 557	2 185 098
	2 252 378	3 923 815
Cash flows related to operating activities	2 000 183	5 848 243
INVESTMENT ACTIVITIES		
Acquisition of investments	(73 174 475)	(109 410 152)
Sale of investments	70 684 000	103 875 604
Acquisition of capital assets (Note 8)	(105 331)	(380 846)
Cash flows related to investment activities	(2 595 806)	(5 915 394)
FINANCING ACTIVITIES		
Cash flows related to financing activities:		
Repayment of long-term debt	(48 311)	(45 469)
DECREASE IN CASH ON HAND	(643 934)	(112 620)
OPENING CASH ON HAND	1 009 515	1 122 135
CLOSING CASH ON HAND	\$365 581	\$1 009 515

The notes are an integral part of these financial statements.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Fonds québécois de la recherche sur la société et la culture (Fund) was established under the *Act respecting the Ministère du Développement économique, de l'Innovation et de l'Exportation* (R.S.Q., c. M-30.01) to promote and provide financial assistance for the development of research into and dissemination of knowledge in the social sciences, humanities, education, management, arts and literature; researcher training through the allocation of scholarships to graduate students and individuals doing post-doctoral research; the allocation of professional development bursaries for those wishing to re-enter research circles and the allocation of subsidies to lighten the workloads of college professors involved in research activities.

The Fund also manages university graduate student scholarship and grant programs. It establishes all partnerships required, notably with the universities, colleges, industry, government departments and public and private organizations concerned.

Under section 48 of the above-mentioned Act, the Fund is a mandatary of the Gouvernement du Québec and, as such, does not pay federal or provincial income tax.

2. MAIN ACCOUNTING POLICIES

To prepare its financial statements, the Fund gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Subsidies from the Gouvernement du Québec and other organizations

Appropriated subsidies are reported as revenue for the fiscal year in which the related expenses are incurred. Unappropriated subsidies are posted to revenue when they are received or receivable if the amount can be reasonably estimated and its reception is reasonably certain.

Grants and scholarships awarded

Grants and scholarships are recorded when authorized and when the recipients have met the eligibility criteria. Cancellations or repayments of grants and scholarships awarded are reported in the fiscal year in which they are cancelled or reimbursed.

Investment income and short-term investments

Interest income is recognized according to the number of days the investment was held during the fiscal year. Short-term investments, composed primarily of bank acceptances and discount notes, are recognized at cost and market value.

Other income

Other income is recorded when the services are rendered to customers, when the selling price is, or can be, determined.

Cash and cash equivalents

The Fund's policy consists in presenting bank balances and investments that are easily convertible in the short term into a known amount of cash, whose value is unlikely to change significantly, under cash and cash equivalents.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method and the following rates:

	<u>Rate</u>
Office furniture and equipment	20.00%
Data processing equipment	33.33%
Leasehold improvements	20.00%
Computer system development	20.00%

Amortization of long-term assets

When the situation indicates that a capital asset no longer contributes to the Fund's capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its book value, its cost is reduced to reflect this decline. Capital asset-related losses are posted to expenses in the statement of operations. At March 31, 2009 and 2008, no decline in value was posted.

Fringe benefits

The Fund offers its employees a defined-benefit pension plan to which the Fund (employer) and plan participants (employees) contribute in equal parts corresponding to 5% of the employee's wages. Employees manage their own investment choices individually.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, at the Government's request, the Fund has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the Fund's results or cumulated surplus.

The accounting policies affected by this change in accounting framework are described below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer system development and application software are now presented under "Capital assets" rather than "Intangible assets". The treatment applied to this item for the current fiscal year is the same as that used last year.

4. SUBSIDIES FROM THE GOUVERNEMENT DU QUÉBEC AND OTHER ORGANIZATIONS

	<u>2009</u>	<u>2008</u>
Ministère du Développement économique, de l'Innovation et de l'Exportation*	\$46 265 676	\$44 637 802
Joint action partners	3 360 783	4 105 073
Other	<u>164 783</u>	<u>9 555</u>
	<u>\$49 791 242</u>	<u>\$48 752 430</u>

* Related party under common control

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. FUND OPERATING EXPENSES

	2009	2008
Salaries		
Wages	\$2 510 598	\$2 451 872
Training and professional development	13 779	16 985
Professional dues	1 245	1 679
	<u>2 525 622</u>	<u>2 470 536</u>
Services		
Fees	<u>478 000</u>	<u>303 289</u>
Office occupancy costs		
Rent to the Société immobilière du Québec	255 601	257 771
Insurance	17 600	16 371
Maintenance and repairs	54 347	51 543
Rental	2 635	4 470
	<u>330 183</u>	<u>330 155</u>
Communications	<u>122 607</u>	<u>93 592</u>
Transportation and accommodations	<u>317 711</u>	<u>322 178</u>
Other expenses		
Telecommunications	51 811	54 951
Photocopies	46 751	48 384
Mailing costs	23 966	29 270
Office expenditures	32 294	43 365
Other expenses	16 469	3 781
Financial charges	6 857	9 198
	<u>178 148</u>	<u>188 949</u>
Amortization of capital assets	<u>184 973</u>	<u>249 735</u>
	<u><u>\$4 137 244</u></u>	<u><u>\$3 958 434</u></u>

6. CUMULATED SURPLUS

The Fund's Board of Directors has reserved a portion of the surplus for awarding scholarships and grants, including a sum to meet the Fund's commitments under joint action programs. The Fund cannot use this amounts set aside for appropriations of inside origin for other purposes without the Board of Directors' prior consent. These appropriations break down as:

	2009	2008
Research scholarships and bursaries	\$5 943 984	\$5 390 381
Unappropriated	<u>1 006 220</u>	<u>1 996 991</u>
	<u><u>\$6 950 204</u></u>	<u><u>\$7 387 372</u></u>

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

7. SUBSIDIES AND OTHER ACCOUNTS RECEIVABLE

	2009	2008
Ministère du Développement Économique, de l'Innovation et de l'Exportation *	\$529 750	
Fonds de la recherche en Santé du Québec *	1 735	\$2 200
Ministère de l'Éducation, du Loisir et du Sport *	1 200 000	28 386
Ministère de la Santé et des Services sociaux *	640 000	622 427
Ministère de la Sécurité publique *	352 500	
Ministère du Développement durable, de l'Environnement et des Parcs *	100 000	
Secrétariat aux affaires intergouvernementales canadiennes	83 938	
Other	64 645	70 815
	<u>\$2 972 568</u>	<u>\$723 828</u>

* Related party under common control

8. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Office furniture and equipment	\$274 343	\$243 801	\$30 542	\$21 497
Data processing equipment	339 453	275 888	63 565	65 286
Leasehold improvements	601 104	569 254	31 850	42 374
Computer system development	804 716	620 234	184 482	271 698
	<u>\$2 019 616</u>	<u>\$1 709 177</u>	<u>\$310 439</u>	<u>\$400 855</u>

At March 31, 2009, "Accounts payable and accrued liabilities" included \$4 319 (2008: \$15 093) for the acquisition of capital assets.

9. CREDIT FACILITIES

The Fund has a credit line of up to \$10 000 000 with the Financing Fund until March 31, 2012. The amounts used bear interest at the one-month bank acceptance rate plus 0.3%. At March 31, 2009 and 2008, these credit facilities were unused.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Fonds québécois de la recherche sur la nature et les technologies *	\$267 283	\$105 559
Salaries and vacation time payable	288 941	262 657
Others	19 578	27 757
	<u>\$575 802</u>	<u>\$395 973</u>

* Related party under common control

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. LONG-TERM DEBT**

	2009	2008
Note payable to the Société immobilière du Québec,* fixed rate of 6.08%, repayable in monthly instalments of \$4 602 in capital and interest, maturing in November 2010.	\$87 324	\$135 635
Short-term portion	51 332	48 311
	<u>\$35 992</u>	<u>\$87 324</u>

Principal payments for the next two fiscal years are:

2009-2010	\$51 332
2010-2011	\$35 992

Interest paid on the debt totalled \$6 915 (2008: \$9 758).

* Related party under common control

12. COMMITMENTS

As at March 31, 2009, Fund commitments amounted to \$48 159 127 (2008: \$32 985 015) for grants and \$21 506 985 (2008: \$17 822 261) for scholarships. Whether these grants and scholarships are awarded depends on the appropriations allotted by the National Assembly, with the exception of amounts reserved in the cumulated surplus.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Fund is a related party to all Government departments, special funds, and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fund did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. FUTURE FRINGE BENEFITS

The supplemental pension plan for staff members of the Fund is a defined-contribution plan. The Fund's liability towards this plan is restricted to its employer contributions. This plan will not pay benefits in excess of available funds.

Contributions charged to the year-end statement totalled \$102 637 (2008: \$98 091) and represent current service pension costs.

15. COMPARATIVE FIGURES

Some 2008 figures were reclassified for consistency with the presentation adopted in 2009.

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**MANAGEMENT'S REPORT**

The financial statements of the Fonds québécois de la recherche sur la société et la culture (Fund) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. The other financial information contained in the annual activity report concurs with the information shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fund recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Jacques Babin
President and Chief Executive Officer

Lucie Girard
Vice-president of Administration and Information

Québec, May 25, 2009

FONDS QUÉBÉCOIS DE LA RECHERCHE SUR LA SOCIÉTÉ ET LA CULTURE**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Fonds québécois de la recherche sur la société et la culture (Fund) as at March 31, 2009 and the statement of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Fund management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Fund's financial position as at March 31, 2009 and the results of its operation and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 25, 2009

HÉMA-QUÉBEC
(R.S.Q., c. H-1.1)

STATEMENT OF OPERATIONS
for the year ended March 31
(in thousands of dollars)

	2009	2008
REVENUES		
Blood products sold to Québec hospital centres	260 223	245 379
Credits issued to Québec hospital centres pertaining to the previous year	(2 069)	(1 650)
	258 154	243 729
Grants from the Government of Québec	29 846	22 885
Human tissue sold to Québec hospital centres	1 128	709
Interest on bank deposits	595	1 402
Unrealized gains on foreign currency contracts		1 702
Other	3 052	1 458
	292 775	271 885
EXPENSES (Note 4)	290 855	271 106
EXCESS OF REVENUES OVER EXPENSES	1 920	779

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS
for the year ended March 31
(in thousands of dollars)

	2009	2008
NET ASSETS, BEGINNING OF YEAR		
As previously reported	2 069	1 650
Adoption of new recommendations regarding inventories (Note 2)	6 336	5 976
As restated	8 405	7 626
EXCESS OF REVENUES OVER EXPENSES	1 920	779
NET ASSETS, END OF YEAR	10 325	8 405

The accompanying notes are an integral part of the financial statements.

HÉMA-QUÉBEC

STATEMENT OF FINANCIAL POSITION

as at March 31

(in thousands of dollars)

	2009	2008
ASSETS		
Current assets		
Cash	1 870	6 291
Temporary investment		12 000
Accounts receivable (Note 5)	2 147	5 543
Inventories (Note 6)	36 860	25 979
Prepaid expenses (Note 7)	2 365	2 032
Derivative financial instruments (Note 15)		1 702
	<u>43 242</u>	<u>53 547</u>
Capital assets (Note 8)	32 299	34 748
Deferred charges (Note 9)	1 515	1 575
Accrued benefit asset (Note 13)	<u>2 213</u>	<u>1 330</u>
	<u>79 269</u>	<u>91 200</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	30 635	31 769
Non-interest-bearing advance from the Government of Québec	2 349	13 026
Payment on long-term debt (Note 12)	<u>4 368</u>	<u>5 045</u>
	37 352	49 840
Long-term debt (Note 12)	28 091	29 540
Accrued benefit liability (Note 13)	<u>3 501</u>	<u>3 415</u>
	68 944	82 795
NET ASSETS	<u>10 325</u>	<u>8 405</u>
	<u>79 269</u>	<u>91 200</u>

COMMITMENTS (Note 16)

On behalf of the Board of Directors,
Jean-Pierre Allaire, Director
René Carignan, Director

The accompanying notes are an integral part of the financial statements.

HÉMA-QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	1 920	779
Items not affecting cash and cash equivalents		
Amortization of capital assets	5 839	4 783
Amortization of deferred charges	60	60
Loss on write-off and disposal of capital assets	539	103
Unrealized gains on foreign currency contracts	1 702	(1 702)
Unrealized exchange loss	317	544
Increase in accrued benefit asset	(883)	(661)
Increase in accrued benefit liability	86	214
	<u>9 580</u>	<u>4 120</u>
Changes in non-cash operating working capital items		
Decrease in accounts receivable	3 396	2 635
Decrease in grant receivable from the Government of Québec		22
Increase in inventories	(10 881)	(737)
Decrease (increase) in prepaid expenses	(333)	17
Increase (decrease) in accounts payable and accrued liabilities	(1 134)	4 894
Increase (decrease) in advance from the Government of Québec	(10 677)	1 188
	<u>(10 049)</u>	<u>12 139</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(3 733)	(2 535)
Purchase of intangible assets	(198)	(370)
Proceeds from disposal of capital assets	2	17
	<u>(3 929)</u>	<u>(2 888)</u>
FINANCING ACTIVITIES		
Increase in long-term debt	3 072	2 527
Repayment of long-term debt	(5 198)	(5 418)
	<u>(2 126)</u>	<u>(2 891)</u>
Unrealized exchange loss on cash and non-cash working capital items denominated in foreign currency	<u>(317)</u>	<u>(544)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(16 421)</u>	<u>5 816</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>18 291</u>	<u>12 475</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>1 870</u></u>	<u><u>18 291</u></u>

The accompanying notes are an integral part of the financial statements.

HÉMA-QUÉBEC

STATEMENT OF CASH FLOWS (cont'd)
 for the year ended March 31
 (in thousands of dollars)

Cash and cash equivalents are as follows:

	<u>2009</u>	<u>2008</u>
Cash	1 870	6 291
Temporary investment	<u> </u>	<u>12 000</u>
	<u>1 870</u>	<u>18 291</u>
 Interest paid	 <u><u>1 737</u></u>	 <u><u>1 896</u></u>

The accompanying notes are an integral part of the financial statements.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS for the year ended March 31, 2009 (in thousands of dollars)

1. INCORPORATION AND ACTIVITIES

Héma-Québec, constituted on March 26, 1998 by letters patent issued under Part III of the *Companies Act* (R.S.Q., chapter c-38), is continued in accordance with the provisions of the *Act respecting Héma-Québec and the Haemovigilance Committee* (S.Q. 1998, chapter 41). Héma-Québec is a legal person not established for pecuniary gain (not-for-profit organization) whose mission is to efficiently provide adequate quantities of safe, optimal blood components and substitutes, human tissue and cord blood to meet the needs of all Quebecers; to provide and develop expertise, services and specialized and innovative products in the fields of transfusion medicine and human tissue transplantation. Héma-Québec is not subject to the *Income Tax Act*.

2. ACCOUNTING CHANGES

a) Year ended March 31, 2009

On April 1, 2008, Héma-Québec adopted the recommendations contained in the following sections of the *Canadian Institute of Chartered Accountants (CICA) Handbook*.

Section 1535, *Capital Disclosures*

Héma-Québec has adopted the recommendations of *CICA Handbook* Section 1535, *Capital Disclosures*. This section requires disclosure of information about externally imposed capital requirements. The required information is disclosed in Note 14.

Section 3031, *Inventories*

Héma Québec has adopted the recommendations of *CICA Handbook* Section 3031, which provides further guidance on the determination of the cost of inventories and their subsequent recognition as an expense, as well as requiring additional associated disclosures. The new standard also allows for the reversal of any write-downs previously recognized when there is a subsequent increase in value of the inventories. This accounting policy was adopted as of April 1, 2008 on a retrospective basis, with restatement of prior-period financial statements to reflect this change. The cumulative effect of this change as at April 1, 2008 was a \$6 336 increase in the value of inventories and net assets (\$5 976 as at April 1, 2007). In addition, the excess of revenues over expenses for the year ended March 31, 2009 was increased by \$394 (\$360 for the year ended March 31, 2008).

Section 3862, *Financial Instruments – Disclosures*

Section 3862, *Financial Instruments - Disclosures*, modifies the disclosure requirements for financial instruments formerly included in Section 3861, *Financial Instruments – Disclosure and Presentation*. This new section requires entities to provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, the nature and extent of risks to which it is exposed during the period and at the statement of financial position date, and how those risks are managed. The required information is disclosed in Note 15.

Section 3863, *Financial Instruments – Presentation*

Section 3863, *Financial Instruments - Presentation*, carries forward unchanged the presentation requirements of former Section 3861, *Financial Instruments – Disclosure and Presentation*.

The adoption of these recommendations did not have any material effect on the results, financial position and cash flows of Héma-Québec. The required information is disclosed in Note 15.

b) Future accounting changes

Section 3064, *Goodwill and Intangible Assets*

Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria thereof. Section 3064 also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward most of the requirements of former Section 3062. Héma-Québec is currently assessing the impact of adopting this new standard on its financial statements.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

2. ACCOUNTING CHANGES (cont'd)**b) Future accounting changes (cont'd)****International Financial Reporting Standards (IFRS)**

Héma-Québec is currently assessing the impact of the future adoption of International Financial Reporting Standards (IFRS). On February 24, 2009, the Public Sector Accounting Board (PSAB) issued an Invitation to Comment on the adoption of IFRS by certain government organizations. The PSAB is expected to report on its deliberations in fall 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the financial statements of Héma Québec in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates. The main estimates consist of the useful life of capital assets and the accrued benefit asset and liability. Héma Québec is considered a government business-type organization (GBTO).

Revenue recognition

Revenues resulting from the sale of blood, labile and stable products and human tissue are recognized at the time of delivery provided that collection is reasonably assured. Revenues derived from grants from the Government of Québec relating to products and services consisting of human tissue, stem cells, cord blood, reference laboratory, eye bank and Synagis products are accounted for using the deferral method and recognized during the year as the expenses are incurred.

Inventories

The inventories of blood, labile and stable products, plasma for fractionation, blood drive and laboratory equipment, and human tissue are valued at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is the estimated selling price less the related variable selling expenses.

Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis over their useful life using the following rates:

Capital assets

Building	4%
Betterment	5% and 10%
Leasehold improvements	Lease term
Automotive equipment	20%
Machinery and equipment	10% and 20%
Office furniture and equipment	20%
Computer equipment	33 ¹ / ₃ %

Intangible assets

Intangible assets are recorded at cost. Amortization is calculated on a straight-line basis over their useful life using the following rates:

Intangible assets

Software applications	33 ¹ / ₃ %
Software packages	20%

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Deferred charges**

Deferred charges are recorded at cost and amortized on a straight-line basis over the term of the lease.

Foreign currency translation

Foreign currency transactions are accounted for at the average monthly exchange rate. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect on the statement of financial position date, whereas non-monetary items are translated at the monthly average exchange rate. Exchange gains and losses on the translation of monetary assets and liabilities are included in the calculation of net results for the year.

Employee benefit plans

Héma-Québec offers its employees defined benefit and defined contribution pension plans. Contributions are made by both Héma-Québec and plan members. Héma-Québec also offers its employees certain benefits that apply after termination of employment but before retirement, and provides certain retirees with health and life insurance benefits.

The cost of pension and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected return on plan assets, salary escalation, retirement ages and expected health care costs.

The accrued benefit obligation is valued using market interest rates on the measurement date for high-quality corporate bonds. Pension plan assets are measured at fair value. This method is also used to calculate the expected return on plan assets.

Actuarial gains or losses arise from, among other things, the difference between the actual long-term rate of return on plan assets and the expected rate of return on plan assets, as well as from changes in the actuarial assumptions used to determine the accrued benefit obligation.

The net actuarial gain or loss is amortized if, at the beginning of the year, the unamortized balance of the gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair value of plan.

The excess is amortized on a straight-line basis over the average remaining service period of active employees. The average remaining service period for active employees is 11 years for the unionized employee pension plan, 12 years for the non-unionized employee pension plan, 6 years for the supplemental pension plan and 15 years for the other employee benefit plans.

The transitional obligation and past service costs are normally amortized over the average remaining service period of employees active at the date of amendment.

Financial instruments

Financial assets and financial liabilities are recognized initially at fair value and their subsequent remeasurement depends on their classification, as described below. The classification of financial assets and financial liabilities depends on Héma Québec's objectives when the financial instruments are acquired or issued, their characteristics and their designation. Héma Québec uses settlement-date accounting.

Cash	Held for trading
Temporary investment	Held for trading
Accounts receivable	Loans and receivables
Derivative instruments	Held for trading
Accounts payable and accrued liabilities (excluding benefits)	Other financial liabilities
Advance from the Government of Québec	Other financial liabilities
Long-term debt	Other financial liabilities

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)***Assets or liabilities held for trading*

Financial instruments classified as assets and liabilities held for trading are recognized at fair value at each statement of financial position date; any change in fair value is recognized in the results for the period in which the changes occur.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are recognized at amortized cost using the effective interest method. Any revenue or interest expense is recognized in the statement of operations through the expected life of the instrument.

Cash and cash equivalents

Héma-Québec's policy consists in presenting in cash and cash equivalents bank balances, including bank overdrafts whose balances fluctuate frequently from being positive to overdrawn, and temporary investments with maturities of three months or less from the date of acquisition.

4. EXPENSES BY ACTIVITY CENTRE

	2009				2008
	Labile products	Stable products	Other services	Total	Total
Salaries and employee benefits	68 056	487	5 635	74 178	71 724
Medical and blood drive supplies	25 287	615	2 691	28 593	26 145
Stable products		161 121		161 121	126 472
Purchased services	(658)	1 841	4 640	5 823	4 179
Loss on write-offs and disposal of capital assets	539			539	103
Exchange loss (gain)	(350)	(5 241)		(5 591)	7 630
Amortization of capital assets	5 672	28	139	5 839	4 783
Interest on long-term debt	1 734			1 734	1 885
Other interest and bank charges	438			438	80
Insurance	5 940			5 940	6 014
Other expenses	22 283	106	1 662	24 051	22 317
Subtotal	128 941	158 957	14 767	302 665	271 332
Plasma for fractionation *	(8 728)	8 728			
Change in inventories of finished goods	(486)	(10 851)	(473)	(11 810)	(226)
Total	119 727	156 834	14 294	290 855	271 106

* Some expenses related to plasma for fractionation are incurred for labile products and reallocated to stable products on the basis of costs incurred. The costs are allocated based on units shipped.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

5. ACCOUNTS RECEIVABLE

	2009	2008
Trade accounts receivable	275	198
Sales taxes	1 234	1 221
Security deposit		3 798
Other receivables	638	326
	<u>2 147</u>	<u>5 543</u>

6. INVENTORIES

	2009	2008
Stable products	27 570	16 835
Plasma for fractionation	3 044	3 532
Labile products	3 290	2 804
Blood drive equipment	2 023	2 141
Laboratory equipment	460	667
Human tissue	473	
	<u>36 860</u>	<u>25 979</u>

7. PREPAID EXPENSES

	2009	2008
Insurance	778	797
Other	1 587	1 235
	<u>2 365</u>	<u>2 032</u>

8. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated amortization	Net
Tangible assets			
Land	2 140		2 140
Building	19 699	5 883	13 816
Betterment *	9 524	3 974	5 550
Leasehold improvements *	1 913	976	937
Automotive equipment	54	37	17
Machinery and equipment *	14 994	8 746	6 248
Office furniture and equipment *	4 102	3 334	768
Computer equipment	6 777	5 922	855
	<u>59 203</u>	<u>28 872</u>	<u>30 331</u>
Intangible assets			
Software applications and packages	7 852	5 884	1 968
	<u>67 055</u>	<u>34 756</u>	<u>32 299</u>
			<u>34 748</u>

* The accumulated cost of work in progress as at March 31, 2009 totalled \$552 excluding taxes, of which \$113 is included in betterment, \$378 in machinery and equipment, \$60 in office furniture and equipment, and \$1 in leasehold improvements. Amortization of these capital assets will begin when the projects have been completed and the assets have been commissioned.

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

9. DEFERRED CHARGES

Under an emphyteutic lease, Héma-Québec initially paid \$1 875 for the right to occupy premises at Université Laval for a thirty-year term expiring in 2034. Amortization for the period is \$60 (\$60 in 2008) and was recognized in the statement of operations under "Other expenses." Accumulated amortization on a straight-line basis amounted to \$360 (\$300 in 2008).

10. LINE OF CREDIT

As at March 31, 2009, Héma-Québec had a \$15 000 revolving line of credit, renewable in August 2009, bearing interest at the prime rate, which may be changed at the bank's option. This line of credit was undrawn as at the end of fiscal 2008 and 2009.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Trade accounts payable	20 437	22 285
Salaries and accrued benefits	10 198	9 484
	<u>30 635</u>	<u>31 769</u>

12. LONG-TERM DEBT

	2009	2008
Loan, secured by the land and building, with a net carrying amount of \$15 956, repayable in monthly instalments of \$24 (principal only), at a fixed rate of 4.12%, renewable in 2011 and maturing in 2023	4 160	4 367
Loan, secured by the land and building, with a net carrying amount of \$15 956, repayable in monthly instalments of \$54 (principal only), at a fixed rate of 5.79%, renewable in 2009 and maturing in 2027	11 832	12 478
Loan, repayable in blended monthly instalments of \$100, at a fixed rate of 6.01% that matured during the year		782
Loans repayable in monthly instalments of \$228 (principal only) and yearly instalments of \$256 (principal only), at fixed rates ranging from 3.82% to 4.98%, maturing from 2009 to 2015	6 212	9 207
Loans repayable in monthly instalments of \$77 (principal only), at fixed rates ranging from 4.12% to 5.41%, renewable from 2010 to 2013 and maturing from 2013 and 2026	<u>10 255</u>	<u>7 751</u>
	32 459	34 585
Current portion	<u>(4 368)</u>	<u>(5 045)</u>
	<u>28 091</u>	<u>29 540</u>

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

Principal repayments on long-term debt to be made over the next five years are as follows:

2010	4 368
2011	3 151
2012	3 151
2013	2 208
2014	2 128

13. DESCRIPTION OF EMPLOYEE BENEFIT PLANS

Héma-Québec has several defined benefit plans, funded and non-funded, which guarantee the payment of pension benefits, other post-retirement benefits and post-employment benefits to most employees.

The defined benefit plans are based on number of years of service and average salary at retirement. They also provide for partial indexation of pension benefits based on inflation.

Total cash payments

Total cash payments for future employee benefits for 2009, which consist of Héma-Québec's contributions to its funded pension plans and amounts paid directly to beneficiaries under other non-funded plans, amounted to \$6 652 (\$6 410 in 2008).

Dates for the valuation of defined benefit plans

Héma-Québec determines its accrued benefits obligation and the fair value of pension plan assets for accounting purposes as at March 31 of each year. The effective dates of the most recent actuarial valuations as well as of upcoming mandatory valuations for the purposes of funding the funded plans are as follows:

	<u>Date of most recent actuarial valuation</u>	<u>Date of mandatory actuarial valuation</u>
Unionized employees' pension plan	December 31, 2007	December 31, 2010
Pension plan for management, professional, technical and administrative support staff	December 31, 2007	December 31, 2010

Allocation of defined benefit plan assets

(as a % as at March 31)	<u>2009</u>	<u>2008</u>
Shares	46%	52%
Bonds	49%	40%
Other	5%	8
Total	<u>100%</u>	<u>100%</u>

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

13. DESCRIPTION OF EMPLOYEE BENEFIT PLANS (cont'd)**Reconciliation of financial position and amounts recorded in the financial statements**

	2009		2008	
	Pension plans	Other plans	Pension plans	Other plans
Fair value of plan assets	73 420		81 884	
Accrued benefit obligation	76 371	4 005	87 082	4 582
Financial position – deficit	(2 951)	(4 005)	(5 198)	(4 582)
Unamortized transitional obligation	21		26	
Cost of benefits for unamortized past service	2 046		1 965	
Net unamortized actuarial losses	3 097	504	4 537	1 167
Accrued benefit asset (liability) - end of year	2 213	(3 501)	1 330	(3 415)
Classification of amounts recorded in Héma-Québec's financial statements				
Accrued benefit asset	2 213		1 330	
Accrued benefit liability		3 501		3 415

Accrued benefit obligations exceed plan assets for all Héma-Québec plans.

Costs recognized for the year

	2009		2008	
	Pension plans	Other plans	Pension plans	Other plans
Employee future benefit costs	3 779	2 076	3 536	2 428

Main assumptions

	2009		2008	
	Pension plans	Other plans	Pension plans	Other plans
Accrued benefit obligation as at March 31				
Discount rate	7.50%	7.50%	5.75%	5.75%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

Cost of benefit for years ended March 31

	2009		2008	
	Pension plans	Other plans	Pension plans	Other plans
Discount rate	5.75%	5.75%	5.25%	5.25%
Expected rate of return on plan assets	7.00%		7.00%	
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

13. DESCRIPTION OF EMPLOYEE BENEFIT PLANS (cont'd)**Assumed health care cost trend rate(s)**

	2009	2008
Initial health care cost trend rate as at March 31	9.00%	9.50%
Cost trend rate declines to	5.00%	5.00%
Year that the rate reaches the rate it is assumed to remain at	2017	2017

14. NET ASSETS

Héma-Québec defines its capital as net assets, which it administers through conservative management of its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure the mission set forth in its incorporating act is accomplished efficiently.

15. RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS**RISK MANAGEMENT**

In the normal course of its operations, Héma-Québec is exposed to various financial risks including credit risk, currency risk, interest rate risk and liquidity risk. Management assesses these risks and implements strategies to minimize their impact on its performance.

Credit risk

Héma-Québec's main financial assets include cash, temporary investments and receivables, which are subject to credit risk. The carrying value of financial assets on the statement of financial position represents the maximum exposure to credit risk at the reporting date.

The credit risk associated with cash and temporary investments is limited, as the counterparty is a Canadian chartered bank which is assigned a high credit rating by national rating agencies.

Credit risk arising from receivables is limited, as the main receivables are associated with the collection of commodity tax or the reclassification of debit balances related to accrued liabilities. The other receivables are not material.

Currency risk

Héma-Québec purchases approximately 75% of its stable products, medical and blood drive supplies in U.S. dollars and is therefore exposed to currency fluctuations. Héma-Québec has established a currency risk management policy and enters into derivative financial instruments for the management of currency risk, particularly through foreign exchange contracts. As at March 31, 2009, there were no derivative financial instruments (\$1 702 as at March 31, 2008).

The statement of financial position includes the following amounts in Canadian dollars with respect to financial assets and liabilities denominated in U.S. dollars:

	2009	2008
U.S. dollars :		
Cash	375	2 500
Accounts payable and accrued liabilities	3 230	11 904

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

15. RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**RISK MANAGEMENT (cont'd)****Interest rate risk**

Long-term loans payable are at fixed rates, thereby minimizing interest rate risk. Short-term loans payable, as applicable, are at variable rates and management does not believe that the impact of short-term interest rate fluctuations will have material repercussions on operating results.

Liquidity risk

Liquidity risk is the risk that Héma-Québec will not be able to meet its financial obligations. Héma-Québec monitors its cash balance and the cash flows that arise from its operations to be in a position to meet its financial obligations. As at March 31, 2009, financial liabilities were as follows:

	Carrying value	2010	2011	2012 and thereafter
Accounts payable and accrued liabilities	30 635	30 635		
Long-term debt	32 459	4 368	3 151	24 940
Interest on long-term debt	11 550	1 539	1 355	8 656
Commitments	42 284	2 232	2 194	37 858
	<u>116 928</u>	<u>38 774</u>	<u>6 700</u>	<u>71 454</u>

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of temporary investments, receivables, accounts payable and accrued liabilities and of the advance from the Government of Québec, excluding interest, approximate their carrying value due to their short-term maturities.

The fair value of long-term debt is determined using the present value of future cash flows under current financing agreements, based on Héma-Québec's current estimated borrowing rate for loans with similar terms and conditions. The fair value of long-term debt stands at \$38 470 (\$37 376 in 2008).

16. COMMITMENTS

Héma-Québec has entered into long-term leases for its operating and administrative premises, expiring at various dates over the next twenty-five years. In some instances, these leases include a renewal option of up to five years.

Lease expenses for the premises for the year ended March 31, 2009 amounted to \$2 102 (\$2 202 in 2008). Future minimum payments under long-term leases are as follows:

2010	2 232
2011	2 194
2012	2 198
2013	2 198
2014	2 005
2015 and thereafter	31 457

HÉMA-QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements and reported at exchange value, Héma-Québec is related to all government departments and special funds as well as to all organizations and enterprises controlled directly or indirectly by the Government of Québec or subject to joint control or to significant common influence by the Government of Québec. Héma-Québec has not entered into any business transactions with these related parties other than in the normal course of its activities and on normal commercial terms. These transactions are not disclosed separately in the financial statements.

18. COMPARATIVE FIGURES

Certain prior-year figures have been reclassified to conform to current-year presentation.

MANAGEMENT'S REPORT

The financial statements of Héma-Québec were drawn up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein. This responsibility involves the selection of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in this annual activity report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded on a timely basis and in a manner suitable for preparing reliable financial statements.

Héma-Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

Actuaries from the firm Morneau Sobeco have been appointed as consultants for the Héma-Québec employee pension plans.

The Board of Directors is required to monitor the manner in which management carries out its financial reporting responsibilities and has approved the financial statements.

The Auditor General of Québec has audited the financial statements of Héma-Québec in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of the audit and expresses his opinion. The Auditor General has full and unrestricted access to the Board of Directors to discuss any matter related to his audit.

Guy Lafrenière
Vice-President, Administration and Finance

Dr. Francine Décary
President and Chief Executive Officer

Montréal, May 15, 2009

HÉMA-QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the statement of financial position of Héma-Québec as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of Héma-Québec. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance that 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 statements preparation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Héma-Québec as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of determining inventory cost subsequent to the adoption of the new / recommendations as explained in Note 2, on a basis consistent with that of the previous year.

Renaud Lachance, CA Auditor
Auditor General of Québec

Québec City, May 15, 2009

HYDRO-QUÉBEC
(R.S.Q., c. H-5)

CONSOLIDATED STATEMENTS OF OPERATIONS
years ended December 31
(in millions of Canadian dollars)

	2008	2007
REVENUE	<u>12 717</u>	<u>12 330</u>
EXPENDITURE		
Operations	2 497	2 541
Electricity and fuel purchases	1 406	1 555
Depreciation and amortization (Note 4)	2 336	1 991
Taxes (Note 5)	1 093	820
Regulatory deferrals (Note 3)	<u>(72)</u>	<u>29</u>
	<u>7 260</u>	<u>6 936</u>
OPERATING INCOME	5 457	5 394
Financial expenses (Note 6)	<u>2 445</u>	<u>2 512</u>
Income from continuing operations	3 012	2 882
Income from discontinued operations (Note 7)	<u>129</u>	<u>25</u>
NET INCOME	<u>3 141</u>	<u>2 907</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
years ended December 31
(in millions of Canadian dollars)

	2008	2007
BALANCE, BEGINNING OF YEAR	15 556	14 744
Net income	<u>3 141</u>	<u>2 907</u>
	18 697	17 651
Dividends declared (Note 18)	<u>2 252</u>	<u>2 095</u>
BALANCE, END OF YEAR	<u>16 445</u>	<u>15 556</u>

The accompanying notes are an integral part of the consolidated financial statements.

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS
as at December 31
(in millions of Canadian dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	370	54
Short-term investments	3 545	3 073
Accounts receivable	1 961	1 751
Derivative instruments	659	992
Materials, fuel and supplies	<u>290</u>	<u>360</u>
	6 825	6 230
Property, plant and equipment (Note 8)	54 987	53 291
Investments (Note 9)	108	228
Derivative instruments	1 428	1 998
Intangible assets (Note 10)	865	903
Regulatory assets (Note 3)	1 167	1 074
Other assets (Note 11)	<u>1 394</u>	<u>1 142</u>
	<u><u>66 774</u></u>	<u><u>64 866</u></u>

HYDRO-QUÉBEC

CONSOLIDATED BALANCE SHEETS (cont'd)
as at December 31
(in millions of Canadian dollars)

	2008	2007
LIABILITIES		
Current liabilities		
Borrowings	91	73
Accounts payable and accrued liabilities	1 948	1 877
Dividends payable (Note 18)	2 252	2 095
Accrued interest	915	890
Regulatory liabilities (Note 3)	56	97
Current portion of long-term debt (Note 12)	770	1 087
Derivative instruments	82	374
	<u>6 114</u>	<u>6 493</u>
Long-term debt (Note 12)	35 290	33 161
Derivative instruments	1 887	2 844
Asset retirement obligations (Note 13)	300	464
Regulatory liabilities (Note 3)	6	8
Other long-term liabilities (Note 14)	760	718
Perpetual debt (Note 15)	<u>355</u>	<u>286</u>
	<u>44 712</u>	<u>43 974</u>
EQUITY (Note 18)		
Share capital	4 374	4 374
Retained earnings	16 445	15 556
Accumulated other comprehensive income	<u>1 243</u>	<u>962</u>
	<u>17 688</u>	<u>16 518</u>
	<u>22 062</u>	<u>20 892</u>
	<u>66 774</u>	<u>64 866</u>

COMMITMENTS AND CONTINGENCIES (Note 22)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,

Jacques Leblanc
Chair of the Audit Committee

Michael L. Turcotte
Chairman of the Board

HYDRO-QUÉBEC**CONSOLIDATED STATEMENTS OF CASH FLOWS**

years ended December 31

(in millions of Canadian dollars)

	2008	2007
OPERATING ACTIVITIES		
Net income	3 141	2 907
Income from discontinued operations (Note 7)	(129)	(25)
Income from continuing operations	3 012	2 882
Adjustments		
Depreciation and amortization (Note 4)	2 336	1 991
Amortization of debt premiums, discounts and issue expenses (Note 6)	111	111
Difference between contributions paid and pension cost	(305)	287
Regulatory deferrals (Note 3)	(72)	29
Other	82	50
Change in non-cash working capital items (Note 20)	(149)	(191)
	5 015	5 159
INVESTING ACTIVITIES		
Property, plant and equipment and intangible assets	(3 756)	(3 464)
Investments	70	29
Disposal of investments, net of divested cash and cash equivalents	154	51
Costs related to Energy Efficiency Plan	(236)	(172)
Net (acquisition) disposal of short-term investments	(435)	155
Other	(7)	(5)
	(4 210)	(3 406)
FINANCING ACTIVITIES		
Issuance of long-term debt	2 027	2 026
Repayment of long-term debt	(2 734)	(993)
Inflows resulting from credit risk management (Note 16)	2 955	1 374
Outflows resulting from credit risk management (Note 16)	(676)	(1 855)
Net change in short-term borrowings	18	48
Dividends paid	(2 095)	(2 342)
Other	(2)	(2)
	(507)	(1 744)
FOREIGN CURRENCY EFFECT ON CASH AND CASH EQUIVALENTS		
	17	(14)
Cash flows from continuing operations	315	(5)
Cash flows from discontinued operations	1	2
NET CHANGE IN CASH AND CASH EQUIVALENTS	316	(3)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	54	57
CASH AND CASH EQUIVALENTS, END OF YEAR	370	54

Supplementary cash flow information (Note 20)

The accompanying notes are an integral part of the consolidated financial statements.

HYDRO-QUÉBEC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
years ended December 31
(in millions of Canadian dollars)

	<u>2008</u>	<u>2007</u>
NET INCOME	<u>3 141</u>	<u>2 907</u>
OTHER COMPREHENSIVE INCOME		
Change in deferred gains on items designated as cash flow hedges	389	693
Reclassification to operations of deferred gains on items designated as cash flow hedges	<u>(111)</u>	<u>(207)</u>
	<u>278</u>	<u>486</u>
Other	<u>3</u>	<u>5</u>
COMPREHENSIVE INCOME	<u><u>3 422</u></u>	<u><u>3 398</u></u>

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

Under the provisions of the Hydro-Québec Act, Hydro-Québec is mandated to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and any field connected with or related to power or energy. Hydro-Québec is required, in particular, to supply a base volume of up to 165 TWh a year of heritage pool electricity for the Québec market, as set out in the Act respecting the Régie de l'énergie. As a government corporation, Hydro-Québec is exempt from paying income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the decisions of the Régie de l'énergie (the "Régie"). These decisions affect the timing of the recognition of certain transactions in the consolidated operations, resulting in the recognition of regulatory assets and liabilities, which Hydro-Québec considers it is likely to recover or settle subsequently through the rate-setting process.

Regulation

The Act respecting the Régie de l'énergie grants the Régie exclusive authority to determine or modify the rates and conditions under which electricity is transmitted and distributed by Hydro-Québec. Hydro-Québec's electricity transmission and distribution activities in Québec are therefore regulated. Under this legislation, rates are set by reasoned decision of three commissioners after public hearings. Moreover, the Act stipulates that rates are determined on a basis that allows for recovery of the cost of service plus a reasonable return on the rate base.

The Régie and Hydro-Québec are both part of the Québec government reporting entity. However, the Régie is an independent, quasi-judicial economic regulatory agency accountable to the National Assembly of Québec through the Minister of Natural Resources and Wildlife.

Transmission

Hydro-Québec's power transmission rates for 2008 and 2007 were determined in Régie decisions D-2008-027 and D-2007-34, respectively. The authorized return on the rate base was set at 7.84% in 2008 and 7.78% in 2007, assuming a capitalization with 30% equity.

Distribution

Hydro-Québec's electricity rates were determined in decisions D-2008-033 and D-2007-22, in which the Régie granted across-the-board rate increases of 2.90% and 1.92%, effective April 1, 2008, and April 1, 2007, respectively. The authorized return on the rate base was set at 7.81% in 2008 and 7.79% in 2007, assuming a capitalization with 35% equity.

Scope of consolidation

The consolidated financial statements include the accounts of Hydro-Québec, its subsidiaries and its joint ventures as well as those of variable interest entities where Hydro-Québec is the primary beneficiary. Interests in joint ventures are accounted for using the proportionate consolidation method.

Use of estimates

The preparation of consolidated financial statements in accordance with GAAP requires that Management make estimates and assumptions that affect the amounts recognized as assets and liabilities, the disclosures regarding contingent assets and liabilities at the date of the consolidated financial statements and the amounts recognized as revenue and expenditure for the years at issue. The estimates relate to revenue, depreciation and amortization expenses, asset retirement obligations and employee future benefits, among other things. Actual results could differ from those estimates.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Revenue**

Revenue is recognized when electricity is delivered or services are rendered. Revenue from sales of electricity in Québec is recognized on the basis of cyclical billings and also includes revenue accrued in respect of unbilled electricity deliveries.

Research and development (R&D) costs

R&D costs are charged to operations when incurred, except for capitalizable development costs. Capitalized development costs are amortized on a straight-line basis over a five-year period.

Foreign currency translation*Self-sustaining foreign operations*

The financial statements of foreign operations that are self-sustaining in terms of financial and operational management are translated according to the current rate method using the foreign currency as the measuring unit. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and revenue and expenditure are translated at the average exchange rates in effect during the period. The exchange gains or losses resulting from the translation of the financial statements of these foreign operations are presented in Accumulated other comprehensive income under Equity on the balance sheet.

Integrated foreign operations and foreign currency transactions

In the case of foreign operations that are integrated in terms of financial and operational management, as well as foreign currency transactions, accounts stated in foreign currencies are translated according to the temporal method. Under this method, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and non-monetary items are translated at the historical rate. Revenue and expenditure resulting from foreign currency transactions are translated into Canadian dollars at the average exchange rates in effect during the period. The exchange gains or losses resulting from the translation of monetary items are included in the statement of operations, unless they relate to hedging items for future sales in U.S. dollars, in which case they are deferred to other comprehensive income until the year in which such sales are made.

Materials, fuels and supplies

Inventories of materials, fuel and supplies are valued at the lower of cost and net realizable value. Cost is determined by the average cost method.

Property, plant and equipment

Property, plant and equipment are carried at cost, which comprises materials, labor, other costs directly related to construction activities, and financial expenses capitalized during construction. Property, plant and equipment also include draft-design costs for projects whose technical feasibility has been demonstrated, whose profitability has been estimated, and for which Management deems that it will in all likelihood have the necessary resources for completion. The discounted value of retirement obligations related to property, plant and equipment is added to the carrying amount. Moreover, contributions from third parties are applied against the cost of the related property, plant and equipment.

Financial expenses capitalized to property, plant and equipment under construction are determined using the average cost of Hydro-Québec's long-term debt. When the property, plant and equipment under construction relate to regulated transmission and distribution activities, such financial expenses take return on equity into account. The portion that corresponds to return on equity is included in Revenue in the consolidated operations.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Property, plant and equipment (cont'd)**

Property, plant and equipment are depreciated over their useful life, primarily using the sinking fund method, at a rate of 3%. The depreciation periods for the principal categories of property, plant and equipment are as follows:

Hydraulic generation	40 to 50 years
Thermal generation, including nuclear	15 to 50 years
Transmission substations and lines	30 to 50 years
Distribution substations and lines	25 to 40 years
Corporate and other activities	3 to 50 years

When unregulated property, plant and equipment are retired, the cost of such assets and the cost of their dismantlement, net of accumulated depreciation and salvage value, are charged to operations for the year. When regulated property, plant and equipment are retired, these costs are charged to a separate account and amortized over a maximum period of 10 years, using the sinking fund method, at a rate of 3%.

Maintenance and repair costs are charged to operations when incurred.

Investments

Hydro-Québec is the sole owner of a venture capital company whose mission is to make strategic investments. The investments held by this company are accounted for at fair value in accordance with the rules applicable to investment companies. The fair value is determined according to the quoted market price at the balance sheet date in the case of listed shares, and according to valuation methods recognized by capital markets in the case of unlisted shares.

Investments in companies over which Hydro-Québec can exercise significant influence are accounted for on an equity basis.

Intangible assets

Intangible assets are recorded at cost. This cost includes expenses directly associated with activities to develop or obtain computer software for internal use. Financial expenses are capitalized over the development period.

Intangible assets with an indefinite useful life are not amortized. These assets are tested for impairment annually or more frequently if events indicate a potential impairment loss. The excess of the carrying amount over the fair value is recorded in operations for the period in which the impairment is determined.

Intangible assets with a finite useful life are amortized over their useful life according to the straight-line method over the following periods:

Software and licences	3 to 10 years
Patents	20 years

Impairment of long-lived assets

Hydro-Québec reviews the carrying amount of its property, plant and equipment and its amortizable intangible assets whenever events or changes in circumstances indicate that the expected undiscounted net cash flows could be lower than the carrying amount of the property and assets. An impairment loss corresponding to the amount by which the carrying amount exceeds fair value is recognized, if applicable.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee future benefits**

Hydro-Québec offers all of its employees a contributory defined-benefit pension plan based on final pay, as well as other post-retirement and post-employment benefits.

The cost of pension benefits and other post-retirement benefits provided in exchange for current service is calculated using the projected benefit method prorated on years of service. It is based on Management's best assumptions of expected return on plan assets, salary escalation, the increase in health care costs, retirement ages of employees and other actuarial factors.

In order to establish its employee future benefit obligations, Hydro-Québec has adopted the following policies:

- Past service costs arising from plan amendments and transitional balances relating to the pension plan and post-retirement benefits as at January 1, 1999, are amortized using the straight-line method over periods not exceeding active employees' average remaining years of service, which totaled 12 years as at January 1, 2008, and January 1, 2007.
- Amortization of actuarial gains or losses is recognized in operations for the year if the unamortized net actuarial gain or loss at the beginning of the year exceeds 10% of the value of the accrued benefit obligations or 10% of the marker-related value of the plan assets, whichever is greater. The amortization corresponds to the excess divided by active employees' average remaining years of service.
- The expected return on pension plan assets is based on a market-related value determined by using a five-year moving average for equity securities and by valuing other asset classes at fair value.

Asset retirement obligations

Hydro-Québec accounts for asset retirement obligations in the period in which these legal obligations are incurred when a reasonable estimate of their fair value can be made. The corresponding costs of asset retirement are added to the carrying amount of the related asset and are amortized over its useful life. In subsequent financial years, any change due to the passage of time is charged to operating expenses for the current year (accretion expense) and the corresponding amount is added to the carrying amount of the liability. Changes resulting from revisions to the timing or the amount of the undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the liability under Asset retirement obligations, and the corresponding offsetting item is accounted for at the carrying amount of the related asset.

The cash flows required to settle asset retirement obligations are estimated on the basis of studies that use various assumptions concerning the methods and timing to be adopted for the retirement. Hydro-Québec periodically reviews the valuation of these cash flows in light of the underlying assumptions and estimates, potential technological advances, and changes in the standards and regulations governing the decommissioning of nuclear generating stations.

Agreements with Aboriginal communities and regional county municipalities

Hydro-Québec has entered into various agreements related to capital projects and intangible assets with Aboriginal communities and regional county municipalities. The commitments under these agreements are recognized in Long-term debt if they fall within the definition of a liability, and the offsetting item is accounted for in Property, plant and equipment or Intangible assets, as the case may be.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial instruments**

Financial instruments are measured at fair value on initial recognition. Their measurement in subsequent periods and the recognition of any changes in fair value depend on the category in which they are classified.

The following table presents the classification of Hydro-Québec's financial instruments in the various categories:

<i>Category</i>	<i>Financial instruments</i>
Financial assets and liabilities held for trading	Cash and cash equivalents (with initial maturities of three months or less) Derivative instruments
Available-for-sale financial assets	Short-term investments (maturing in more than three months) Investment in bonds (presented in Investments)
Loans and receivables	Accounts receivable Government reimbursement for the 1998 ice storm (presented in Other assets)
Other financial liabilities	Borrowings Accounts payable and accrued liabilities Dividends payable Accrued interest Current portion of long-term debt Long-term debt Perpetual debt

Financial assets and liabilities held for trading are recorded at fair value at the balance sheet date. Gains and losses arising from changes in fair value are recognized in operations for the period during which they occur, except in the case of derivative instruments designated as hedges in a cash flow hedging relationship.

Available-for-sale financial assets are recorded at fair value at the balance sheet date. Changes in fair value are recorded in other comprehensive income until they are realized, at which time they are reclassified to operations. Commodity futures that can be settled net in cash are recorded at the date of settlement if there is a probability of delivery or receipt in accordance with expected needs.

Loans and receivables and other financial liabilities are measured at amortized cost, including debt premiums, discounts and issue expenses.

As part of its integrated enterprise risk management, Hydro-Québec uses various financial instruments to manage its market risk, consisting of currency risk, interest rate risk and risk resulting from fluctuating energy and commodity prices. Hydro-Québec applies cash flow or fair value hedge accounting to the eligible hedging relationships. It formally documents all relationships between hedging instruments and hedged items. This process involves associating all derivative instruments with specific assets and liabilities on the balance sheet, or with probable anticipated transactions. Hydro-Québec also measures the effectiveness of hedging relationships initially and then monthly thereafter.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)**

In the case of a cash flow hedge, the effective portion of changes in the fair value of an instrument designated as a hedge is recognized under other comprehensive income, and the gains and losses related to the ineffective portion are immediately recognized in operations, under the same line item as the hedged item. Amounts included in Accumulated other comprehensive income are reclassified to operations, also under the same component as the hedged item, during the periods in which the change in cash flows attributable to the hedged item affects operations. If a derivative instrument no longer satisfies hedging conditions or is sold or liquidated, or if Hydro-Québec terminates its designation as a hedging item, hedge accounting ceases to be applied on a prospective basis. If the hedged item ceases to exist, the unrealized gains or losses are immediately reclassified to operations.

In the case of a fair value hedge, the derivative instrument is recorded at fair value, and changes in the fair value, including those related to the ineffective portion of the hedge, are recognized in operations in the same line item as the hedged item. Changes in the fair value of the hedged item attributable to the hedged risk are recognized as adjustments to the hedged item's carrying amount and are offset against operations.

In addition, an embedded derivative must be separated from its host contract and recorded at fair value on the balance sheet under certain conditions. Hydro-Québec has opted to apply this accounting treatment to all host contracts issued, acquired or substantially amended on or after January 1, 2003.

Derivative instruments listed on a stock exchange are recognized at closing exchange rates as at the balance sheet date. The fair value of other derivative instruments is based on the spot rates or on the forward rates or prices in effect at market closing at the balance sheet date. In the absence of this information for a given instrument, Management uses the forward rate or price for an equivalent instrument. The valuation techniques used rely on recognized models commonly used by capital market players and make use of market observable data.

2. CHANGES IN ACCOUNTING POLICIES**RECENT CHANGES****2008****Financial instruments**

On January 1, 2008, Hydro-Québec adopted two new disclosure and presentation standards of the Canadian Institute of Chartered Accountants (CICA) Handbook: Section 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation," which superseded Section 3861, "Financial Instruments – Disclosure and Presentation." These new standards modify disclosure requirements regarding the nature and extent of risks arising from financial instruments as well as how Hydro-Québec manages these risks. The presentation rules remain unchanged. The adoption of these new standards has had no impact on the recognition or measurement of financial instruments. The required information is provided in Note 16, Financial Instruments.

Capital disclosures

On January 1, 2008, Hydro-Québec adopted the recommendations of CICA Handbook Section 1535, "Capital Disclosures," requiring disclosure of how capital is managed by Management. The required information is provided in Note 19, Capital Management.

Inventories

On January 1, 2008, Hydro-Québec adopted the recommendations of CICA Handbook Section 3031, "Inventories," which establishes standards for the measurement of inventories, including determination of their cost. The adoption of these recommendations has not affected net income but required the reclassification of \$65 million as Property, plant and equipment on the balance sheet as at December 31, 2008.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

2. CHANGES IN ACCOUNTING POLICIES (cont'd)**RECENT CHANGES (cont'd)****2007****Financial instruments**

On January 1, 2007, Hydro-Québec adopted the recommendations of CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement," which states the requirements for the recognition and measurement of financial instruments, and Section 3865, "Hedges," which specifies how hedge accounting is applied and the required disclosures to be made in this context. It also adopted the recommendations of Section 3861 and Section 1530, "Comprehensive Income." This last section establishes standards for the reporting and presentation of comprehensive income, which includes net income and other comprehensive income.

The main impacts of adopting the new accounting policies were as follows as at January 1, 2007: Retained earnings increased by \$270 million, Accumulated other comprehensive income increased by \$270 million, Accumulated other comprehensive income increased by \$479 million, Long-term debt increase by \$551 million, Other long-term liabilities decreased by \$2,051 million and the net value of derivative instruments decreased by \$701 million.

Equity

On January 1, 2007, Hydro-Québec prospectively adopted the recommendations of CICA Handbook Section 3251, "Equity," which superseded Section 3250, "Surplus." Section 3251 establishes standards for the presentation of equity and changes in equity as a result of the new requirements in Section 1530. With the adoption of these standards, translation adjustments, which were previously presented separately in Equity, were reclassified to Accumulated other comprehensive income.

Accounting changes

Hydro-Québec also adopted the recommendations of CICA Handbook Section 1506, "Accounting Changes," which prescribes the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of these recommendations had no impact on the consolidated financial statements.

FUTURE CHANGES**Goodwill and intangible assets**

In 2008, the CICA issued Section 3064 of the CICA Handbook, "Goodwill and Intangible Assets," which superseded Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It will apply to Hydro-Québec's interim and annual financial statements for periods beginning on or after January 1, 2009. The adoption of these new standards is not expected to have any significant impact on the consolidated financial statements.

Regulated activities

On January 1, 2009, the temporary exemption provided for in CICA Handbook Section 1100, "Generally Accepted Accounting Principles," which allows the recognition and measurement of regulatory assets and liabilities, was withdrawn. Pursuant to a practice allowed by Canadian GAAP, Hydro-Québec will, however, rely on Statement of Financial Accounting Standards (SFAS) No.71, "Accounting for the Effects of Certain Types of Regulation," issued by the U.S. Financial Accounting Standards Board (FASB), to maintain the current accounting treatment for regulatory assets and liabilities. Consequently, the withdrawal of the exemption should not have any impact on the consolidated financial statements.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
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2. CHANGES IN ACCOUNTING POLICIES (cont'd)**FUTURE CHANGES (cont'd)****Credit risk and fair value of financial assets and financial liabilities**

On January 20, 2009, The Emerging Issues Committee (EIC) of the CICA released Abstract of Issue Discussed EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." EIC-173 clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. Hydro-Québec is currently assessing the impact of adopting the recommendations in this abstract on the consolidated financial statements.

International financial reporting standards

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the complete changeover to International Financial Reporting Standards (IFRS) would take effect for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Hydro-Québec is currently examining the issues involved in the changeover from Canadian GAAP to IFRS.

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The following information describes the impact on the consolidated financial statements of accounting methods and practices adopted by Hydro-Québec in accordance with the Régie's decisions with respect to regulated activities.

Regulatory assets and liabilities*Costs related to the energy efficiency plan (EEP)*

The costs related to implementation of the EEP, such as specific energy conservation programs, are charged to a separate account and amortized over 10 years on a straight-line basis, except for the costs incurred prior to January 1, 2006, which are amortized over five years. This period begins in the year after the costs were recorded. Financial expenses arising from these costs are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice relates to Hydro-Québec's power distribution activities and was authorized by the Régie in decisions D-2002-25, D-2002-288, D-2003-93 and D-2006-56. Were these activities not regulated, certain costs not associated with intangible assets as defined in the accounting standards would be recognized in operations for the year in which they were incurred. If none of the costs incurred were related to an intangible asset, net income for 2008 would have been \$178 million lower (\$129 million in 2007).

Net costs related to retirement of property, plant and equipment and intangible assets

When property, plant and equipment or intangible assets are retired, the cost of such assets and of their dismantlement, net of accumulated amortization and salvage value, are charged to a separate account and amortized over a maximum period of 10 years, using the sinking fund method at a rate of 3%. The Régie authorized this accounting practice in decisions D-2002-95 and D-2003-93, which relate to Hydro-Québec's power transmission and distribution activities, respectively. Were these activities not regulated, the related costs would be recognized in operations for the year, and net income for 2008 would have been \$48 million lower (\$22 million higher in 2007).

Variances in revenue related to weather conditions

Variances between actual transmission and distribution revenue and the revenue forecasts established on the basis of weather normals for purposes of rate cases are recorded in a separate account. Financial expenses arising from the variances charged to this account are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base. This accounting practice was authorized by the Régie in decision D-2006-34, which relates to Hydro-Québec's power distribution activities, and led to a request for an amortization mechanism in the 2009 rate application. Were these activities not regulated, Hydro-Québec's expenditure would have been higher and net income would have been lower by \$141 million for 2008 (nil in 2007).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**Regulatory assets and liabilities (cont'd)***Variances in annual cost of transmission service for the native load*

Variances resulting from any modification of the annual cost of native load transmission service that has not been taken into account in the setting of electricity rates are recorded in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as they are included in the rate base and amortization begins. This accounting practice relates to Hydro-Québec's power distribution activities and was authorized by the Régie in decisions D-2003-93, D-2006-34, D-2007-12 and D-2008-024. Were these activities not regulated, Hydro-Québec's expenditure would have been lower and net income would have been higher by \$240 million for 2008 (\$11 million in 2007).

Costs incurred until the rescission of dual-energy Rate BT

The costs incurred until the rescission of dual-energy Rate BT were charged to a separate account and have been amortized on a straight-line basis over five years since the rescission date of April 1, 2006. These costs mainly include the deficit resulting from the variance between the supply cost recognized by the Régie and energy prices in effect, multiplied by the quantity of electricity delivered to customers at Rate BT between January 1, 2004, and March 31, 2006. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until March 31, 2006. This accounting practice was authorized by the Régie in decisions D-2004-47, D-2004-170 and D-2006-34, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income for 2008 would have been \$29 million higher (\$30 million in 2007).

Costs related to the de-icing system at Lévis substation

Certain costs related to the Lévis substation de-icing system, a project designed in the wake of the 1998 ice storm to secure the transmission lines supplying the greater Québec area, were charged to a separate account. These costs have been depreciated using the sinking fund method at a rate of 3%, starting from the date of commissioning of the de-icing system, over a period corresponding to the average remaining useful life of the assets enhanced by the project. Financial expenses arising from these costs were capitalized at the rate of return authorized by the Régie on the rate base until such time as they were included in the rate base and amortization began. The Régie authorized this accounting practice in decision D-2004-175, which relates to Hydro-Québec's power transmission activities. Were these activities not regulated, the costs would have been recognized in operations for the year in which they were incurred, and net income for 2008 would have been \$5 million higher (\$6 million lower in 2007).

Cost variances related to electricity purchases in excess of the heritage pool

Volume and price variances recognized for a given year between the actual costs of electricity purchases in excess of the heritage pool and the costs forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recorded in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2005-34, D-2005-132, D-2006-34, D-2007-12 and D-2008-024, which relate to Hydro-Québec's power distribution activities. Were these activities not regulated, the actual costs would be recognized in operations for the year in which they are incurred, and net income for 2008 would have been \$2 million lower (\$177 million in 2007).

Variances in revenue from point-to-point transmission services

Variances recognized for a given year between actual revenue from point-to-point transmission services and revenue forecasted in the rate cases and accepted by the Régie for rate-setting purposes are recorded in a separate account and amortized according to conditions set by the Régie. Financial expenses arising from these variances are capitalized at the rate of return authorized by the Régie on the rate base until such time as amortization begins. This accounting practice was authorized by the Régie in decisions D-2007-08 and D-2008-019, which relate to Hydro-Québec's power transmission activities. Were these activities not regulated, Hydro-Québec's expenditure would have been higher and net income would have been lower by \$41 million for 2008 (\$50 million higher in 2007).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

Regulatory assets and liabilities (cont'd)

Regulatory assets	Expected years of amortization	2008	2007
Costs related to EEP	2009-2018	559	381
Net costs related to retirement of property, plant and equipment and intangible assets	2009 ^a	267	219
Variances in revenue related to weather conditions ^b	2009-2014	141	
Variances in annual cost of transmission service for native load ^b	2009	104	344
Costs incurred until rescission of dual-energy Rate BT	2009-2011	66	95
Costs related to de-icing system at Lévis substation	2009-2047	13	18
Other	2009-2028	17	17
		<u>1 167</u>	<u>1 074</u>
Regulatory liabilities	Expected years of amortization	2008	2007
Cost variances related to electricity purchases in excess of heritage pool ^b	2009-2010	(53)	(55)
Variances in revenue from point-to-point transmission services ^b	2009	(9)	(50)
		<u>(62)</u>	<u>(105)</u>
Current portion		<u>(56)</u>	<u>(97)</u>
		<u>(6)</u>	<u>(8)</u>

a) Except certain asset retirements.

b) The change in the variance accounts, net of an amortization expense of \$141 million (amortization credit of \$145 million in 2007) and capitalized financial expenses of \$13 million (\$1 million in 2007), corresponds to the Regulatory deferrals presented in the Consolidated Statements of Operations, namely, a decrease in expenditure of \$72 million (increase of \$29 million in 2007).

Risks and uncertainties

The risks and uncertainties related to the above regulatory assets and liabilities are subject to periodic monitoring and assessment. Once Hydro-Québec considers that it is no longer likely that the net carrying amount of a regulatory asset or liability will be taken into account in setting future rates, this amount is recognized in operations for the year in which the conclusion is reached.

Other regulatory practices

Under Régie decisions D-2002-95 and D-2003-93, the compensation granted by the Québec government for the 1998 ice storm was applied against the cost of newly constructed property, plant and equipment; it is amortized over the remaining life of the retired assets, with the exception of the portion equivalent to the unamortized cost of these assets, which is amortized over 10 years. The sinking fund method, at a rate of 3%, is used in both cases. Were these activities not regulated, the compensation would be amortized over the useful life of the newly constructed property, plant and equipment.

In decisions D-2002-95 and D-2004-47, the Régie prescribed capitalizing financial expenses to property, plant and equipment under construction and intangible assets under development according to the authorized rates of return on the rate bases. These rates, which are set using methods approved by the Régie, take into account a component associated with the cost of the debt and a component associated with the return on equity. Were these activities not regulated, financial expenses would be capitalized using the average cost of Hydro-Québec's long-term debt.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

3. EFFECTS OF RATE REGULATION ON THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**Other regulatory practices (cont'd)**

Under Régie decisions D-2002-95 and D-2003-93, the cost of dismantling assets that were retired and replaced, net of the salvage value, is added to the cost of the newly constructed assets. Were these activities not regulated, these costs would be charged to operations.

Under Régie decisions D-2006-76 and D-2006-76R, contributions received for relocation or modification projects relating to certain transmission grid assets are charged to a separate account and applied against property, plant and equipment. These contributions are amortized over the average useful life of assets for each project, using the sinking fund method, at a rate of 3%. Were these activities not regulated, the contributions would be amortized over the useful life of each fixed asset concerned.

In decision D-2007-134 issued in December 2007, the Régie approved an agreement whereby energy deliveries provided for in a power purchase contract with an independent power producer were suspended for 2008. In decision D-2008-114 issued on September 10, 2008, the Régie authorized the renewal of the agreement until the end of 2009. As at December 31, 2008, a \$57-million commitment (\$52 million as at December 31, 2007) was recorded on the balance sheet but had no impact on operating results.

4. DEPRECIATION AND AMORTIZATION

	2008	2007
Property, plant and equipment ^a	1 819	1 857
Intangible assets	122	104
Regulatory assets and liabilities	286	(7)
Deferred charges	10	11
Write-offs	99	26
	<u>2 336</u>	<u>1 991</u>

- a) Revision of the useful life of property, plant and equipment resulted in a \$71-million decrease in the depreciation and amortization expense for 2008 (\$13-million increase in 2007). In fiscal 2009, Hydro-Québec will revise the useful life of some property, plant, and equipment used for hydraulic generation, which could have a major impact on the depreciation and amortization expense.

5. TAXES

	2008	2007
Water-power royalties	552	267 ^a
Public utilities tax	302	240
Capital tax	202	278
Municipal, school and other taxes	37	35
	<u>1 093</u>	<u>820</u>

- a) The payment of water-power royalties results from the fact that Hydro-Québec is subject to the Watercourses Act. For this transition year, the half-rate rule applied.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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6. FINANCIAL EXPENSES

	2008	2007
Interest		
Interest on debt securities	2 585	2 584
Amortization of debt premiums, discounts and issue expenses	111	111
	<u>2 696</u>	<u>2 695</u>
Net exchange (gain) loss	(25)	18
Loan guarantee fees	167	169
	<u>142</u>	<u>187</u>
Less		
Capitalized financial expenses	306	283
Net investment income ^a	87	87
	<u>393</u>	<u>370</u>
	<u>2 445</u>	<u>2 512</u>

a) As at December 31, 2008, the weighted average interest rate on short-term investments was 2.33% (4.20% as at December 31, 2007).

7. DISCONTINUED OPERATIONS

In 2008, Hydro-Québec recognized a gain of \$121 million, net of \$26 million in related income taxes, for the price adjustment provided for in the contract for the sale of its interest in HQI Transelec Chile S.A. (Transelec). This adjustment was made following the ministerial order issued on January 15, 2008, establishing the value of the regulated trunk transmission asset base of Transelec. The retrospective effect of this revised valuation on Transelec's revenue for the period from March 13, 2004, to June 30, 2006, resulted in an additional \$5-million adjustment of the selling price, net of \$1 million in related income taxes.

On February 28, 2007, Hydro-Québec completed the sale of its interest in HQI Australia Pty Ltd (DirectLink), through its wholly owned subsidiary Hydro-Québec International, for a cash consideration of \$52 million, which gave rise to a gain of \$18 million.

For purposes of segmented information, the results of foreign holdings are classified under Corporate and Other Activities.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT

	2008			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	33 829	8 832	3 458	28 455
Thermal, including nuclear	2 573	1 999	248	822
Other	750	332	25	443
	37 152	11 163	3 731	29 720
Transmission				
Substations and lines	21 393	6 932	931	15 392
Other	1 980	1 150	108	938
	23 373	8 082	1 039	16 330
Distribution				
Substations and lines	11 850	4 550	234	7 534
Other	1 863	1 019	101	945
	13 713	5 569	335	8 479
Construction	28	14	1	15
Corporate and Other Activities	1 023	642	62	443
	75 289	25 470	5 168	54 987
	2007			
	In service	Accumulated depreciation	Under construction	Total
Generation				
Hydraulic	32 235	8 256	3 344	27 323
Thermal, including nuclear	2 715	1 933	158	940
Other	725	314	23	434
	35 675	10 503	3 525	28 697
Transmission				
Substations and lines	20 842	6 532	669	14 979
Other	1 916	1 085	87	918
	22 758	7 617	756	15 897
Distribution				
Substations and lines	11 434	4 270	191	7 355
Other	1 801	1 016	123	908
	13 235	5 286	314	8 263
Construction	31	14	2	19
Corporate and Other Activities	992	638	61	415
	72 691	24 058	4 658	53 291

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

9. INVESTMENTS

	2008	2007
At equity		
Churchill Falls (Labrador) Corporation Limited	87	77
CITEQ inc.	(5)	(5)
	82	72
At fair value		
Churchill Falls (Labrador) Corporation Limited		
Bonds		55
Venture capital ^a	19	40
	19	95
Other	7	61
	108	228

- a) The gross unrealized gains and losses on investments held by the venture capital company amounted to \$6 million and \$13 million, respectively, as at December 31, 2008 (\$12 million and \$13 million as at December 31, 2007). Net realized and unrealized losses in 2008 totaled \$1 million and \$6 million, respectively (realized and unrealized gains of \$12 million and \$2 million in 2007).

10. INTANGIBLE ASSETS

	2008			2007		
	Cost ^a	Accumulated amortization	Net carrying amount	Cost ^a	Accumulated amortization	Net carrying amount
Subject to amortization						
Software and licences	1 260	744	516	1 322	763	559
Patents	10	4	6	9	4	5
	1 270	748	522	1 331	767	564
Not subject to amortization						
Servitudes			343			339
			865			903

- a) The intangible assets commissioned during the year totalled \$481 million as at December 31, 2008 (\$87 million as at December 31, 2007).

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

11. OTHER ASSETS

	2008	2007
Accrued benefit asset (Note 21)	1 133	828
Deferred charges	111	153
Government reimbursement for the 1998 ice storm ^a	90	107
Nuclear fuel waste management trust fund ^b	50	44
Goodwill ^c	10	10
	<u>1 394</u>	<u>1 142</u>

a) Payable in quarterly installments of \$6 million until January 15, 2014, and a final installment of \$1 million on April 15, 2014. These installments include interest at the annual rate of 7.2%. The fair value of this financial asset was \$97 million as at December 31, 2008 (\$110 million as at December 31, 2007).

b) On November 15, 2002, the Nuclear Fuel Waste Act came into force. Under this Act, nuclear energy corporations in Canada were required to set up a waste management organization whose role would be to propose a long-term approach for managing spent nuclear fuel to the Government of Canada. Nuclear energy corporations were also required to set up a trust fund to finance the costs of long-term nuclear fuel waste management. In November 2005, the Nuclear Waste Management Organization (NWMO) filed its report with the Government of Canada and recommended an approach which was adopted in June 2007.

In October 2007, the members of the NWMO ratified an agreement that sets forth a formula for financing the costs of long-term nuclear fuel waste management. This formula will be used to determine each member's share for the next five years and will become effective only after approval by the Government of Canada. Each member's share will be determined according to the number of spent nuclear fuel bundles it had generated as at June 30, 2006. It will also take into account the date on which each member plans to send the spent nuclear fuel bundles to the future national repository.

c) For purposes of segmented information, goodwill is classified under the Generation.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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12. LONG-TERM DEBT

The following table presents the debt, at amortized cost, including the current portion of long-term debt, broken down by currency at the time of issue. Swaps related to the debt were taken into account in determining the percentages of debt by currency at the time of repayment.

				2008			2007
				At time of repayment			At time of repayment
		At time of issue			At time of issue		
		At closing exchange rates as at the balance sheet date			At closing exchange rates as at the balance sheet date		
			%	%		%	%
		In Canadian dollars and other currencies			In Canadian dollars and other currencies		
Hydro-Québec's debt							
Canadian dollars	25 482	25 482	71	95	24 829	24 829	96
U.S. dollars	8 076	9 888	28	5 ^a	8 135	8 012	4 ^a
Other currencies							
Euros	59	101			671	968	
Yen	2 506	34			2 508	22	
Pounds sterling	238	425	1		237	465	1
Swiss francs					100	87	
		<u>35 930</u>				<u>34 383</u>	
Plus							
Adjustment for fair-value hedged risk		98				(163)	
Subsidiaries' debt							
U.S. dollars	26	32			29	28	
		<u>36 060</u>	<u>100</u>	<u>100</u>		<u>34 248</u>	<u>100</u>
Less							
Current portion		<u>770</u>			<u>1 087</u>		
		<u><u>35 290</u></u>			<u><u>33 161</u></u>		

a) Of this amount, 99.4% was used to hedge sales in U.S. dollars as at December 31, 2008 (99.3% as at December 31, 2007).

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

12. LONG-TERM DEBT (cont'd)**Interest rates**

The following table shows Hydro-Québec's interest rates, which take into account stated interest rates on borrowings, debt premiums, discounts and issue expenses, and the effect of debt-related swaps:

%				2008	2007
Maturity	Canadian dollars	U.S. dollars	Other currencies	Weighted average	Weighted average
1 to 5 years	7.93	7.51	8.55	7.71	8.14
6 to 10 years	3.31	7.07	9.90	7.58	9.58
11 to 15 years	10.45	8.97		9.96	9.99
16 to 20 years	7.30	8.28		8.27	8.50
21 to 25 years	5.70	9.35		8.10	8.40
26 to 30 years	5.99			5.99	5.99
31 to 35 years	5.17			5.17	5.17
36 to 40 years	4.93			4.93	4.88
41 to 45 years	6.44			6.44	6.44
46 to 50 years					
51 to 55 years	6.62			6.62	6.62
Weighted average	6.31	8.65	9.79	6.93	7.32

The variable-rate portion of Hydro-Québec's debt amounted to 10.1%, or 11.0% including perpetual debt, as at December 31, 2008 (6.8%, or 7.8% including perpetual debt, as at December 31, 2007).

Fair value

As at December 31, 2008, the fair value of Hydro-Québec's long-term debt, including the current portion, amounted to \$47 072 million (\$44 753 million as at December 31, 2007). Including debt-related swaps, total indebtedness stood at \$47 856 million (\$46 044 million as at December 31, 2007).

Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at close of business on the balance sheet date for similar instruments available on capital markets. Changes in fair value reflect sensitivity to capital market interest rates. However, Management's primary intention is to hold these debt securities until maturity.

Standby credit

Hydro-Québec has undrawn standby credit facilities of US\$2,000 million, composed of two tranches, one of US\$360 million and the other of US\$1 640 million, which will expire in 2012 and 2013, respectively. Any borrowings will bear interest at a rate based on the London Interbank Offered Rate (LIBOR). A US\$750-million swing loan at the U.S. base rate is included in the US\$2 000-million credit facility.

13. ASSET RETIREMENT OBLIGATIONS

Liabilities arising from asset retirement obligations relate to the cost of dismantling Gentilly-2 nuclear generating station at the end of its useful life, the removal of spent nuclear fuel resulting from its operation, and the dismantling of fuel tanks and of certain thermal generating stations.

In 2008, the Board of Directors approved the project to refurbish Gentilly-2 nuclear generating station, which will extend its useful life by 28 years. Therefore, the main assumptions for calculating the obligation related to the dismantling of Gentilly-2 generating station at the end of its useful life had to be revised, resulting primarily in a 28-year deferral of the expected timing for the settlement of the obligation.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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13. ASSET RETIREMENT OBLIGATIONS (cont'd)

Hydro-Québec has also identified asset retirement obligations relating to thermal generating stations and power transmission substations and lines for which no liability has been recognized since it expects to use these assets for an undetermined period. These relate to property, plant and equipment for which Hydro-Québec does not have sufficient information to accurately establish a schedule for the obligations. A liability resulting from these asset retirement obligations will be recognized in the period in which there is sufficient information to establish such a schedule.

The aggregate carrying amount of the asset retirement obligations is as follows:

	2008			
	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets	Total
Balance, beginning of year	306	141	17	464
Liabilities incurred		2		2
Accretion expense	15	13	1	29
Liabilities settled		(1)	(2)	(3)
Revision of estimated cash flows and expected timing of payments	(192) ^a			(192)
Balance, end of year	129	155	16	300
	2007			
	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets	Total
Balance, beginning of year	288	127	16	431
Liabilities incurred		3		3
Accretion expense	18	12	1	31
Liabilities settled		(1)	(2)	(3)
Revision of estimated cash flows and expected timing of payments			2	2
Balance, end of year	306	141	17	464

a) The decrease in the obligation is mainly due to the deferral of the dismantling of Gentilly-2 generation station, since Hydro-Québec now has an additional 28 years to provide for its obligation.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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13. ASSET RETIREMENT OBLIGATIONS (cont'd)

The carrying amount of the asset retirement obligations is based on the following key assumptions:

	Dismantling of nuclear generating station	Removal of spent nuclear fuel	Dismantling of other assets
Estimated cash flows (in constant dollars) required to settle the obligations ^a			
As at December 31, 2008	761	598	17
As at December 31, 2007	795	598	18
Expected timing of payment of the cash flows required to settle the obligations			
As at December 31, 2008	Between 2040 and 2071	Between 2009 and 2159	Between 2009 and 2031
As at December 31, 2007	Between 2011 and 2057	Between 2008 and 2159	Between 2008 and 2031
Credit quality-adjusted, risk-free rate at which the estimated cash flows have been discounted (%)			
Initial recognition of obligations	6.4	6.4	6.4
Subsequent recognition of obligations	5.5 and 5.2	5.5	5.7

a) Inflation rates varying between 1.8% and 3.6% were used to determine the asset retirement obligations.

14. OTHER LONG-TERM LIABILITIES

	2008	2007
Accrued benefit liability (Note 21)	663	601
Accounts payable	97	117
	<u>760</u>	<u>718</u>

15. PERPETUAL DEBT

Perpetual notes in the amount of \$355 million (US\$289 million) as at December 31, 2008, and \$286 million (US\$289 million) as at December 31, 2007, bear interest at a rate determined semiannually based on LIBOR, plus 0.0625%. They are redeemable at Hydro-Québec's option. No portion was redeemed in 2008 and 2007. Various derivative instruments recorded at fair value are used to mitigate currency risk associated with this debt.

As at December 31, 2008 and 2007, the rates applicable to the perpetual notes were 3.6% and 5.2%, respectively. As at December 31, 2008, the fair value of the perpetual notes was \$246 million (\$290 million as at December 31, 2007). Fair value is obtained by discounting future cash flows, based on forward interest rates derived from interest rates at close of business on the balance sheet date for similar instruments available on capital markets.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

16. FINANCIAL INSTRUMENTS

As part of its operations, Hydro-Québec carries out transactions that expose it to financial risks such as market, liquidity and credit risks. Exposure to such risks and the impact on operating results are significantly reduced through careful monitoring and implementing strategies that include the use of derivative instruments.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Hydro-Québec is exposed to three main types of market risk: currency risk, interest rate risk and risk associated with the price of aluminum. Active integrated management of these three factors aims to limit their impact on operating results so that the mitigated risk is at an acceptable level.

Management of long-term risk*Management of risk associated with sales in U.S. dollars*

Currency risk – Hydro-Québec uses currency swaps and a portion of U.S. dollar-denominated debt to manage currency risk associated with probable U.S.-dollar sales, designating them as cash flow hedges. The impact of these hedging transactions on operating results is recorded in Revenue. Hydro-Québec regularly assesses the probability of realizing future sales denominated in U.S. dollars.

Management of risk associated with long-term debt

Currency risk and interest rate risk – Hydro-Québec uses currency swaps to manage the currency risk associated with long-term debt and interest rate swaps to modify long-term exposure to interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges or fair value hedges, depending on the risk hedged. The impact on operating results of foreign currency hedging transactions and those associated with long-term debt interest rates is recorded in Financial expenses.

The following table shows the notional amounts of swaps used to manage risk associated with U.S.-dollar sales and long-term debt, expressed in Canadian dollars and other currencies:

						2008 ^a	2007 ^a
Maturity	1 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	More than 20 years	Total	Total
Swaps							
Canadian dollars	(384)	(194)	(2 465)	(2 337)	(2 637)	(8 017)	(6 413)
U.S. dollars	(347)	(12)	2 030	1 950	2 039	5 660	5 418
Other currencies							
Yen	1 500	1 000				2 500	2 500
Euros		61				61	673
Pounds sterling	40	200				240	240
Swiss francs							97

a) Figures in parentheses represent amounts to be paid.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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16. FINANCIAL INSTRUMENTS (cont'd)**Management of long-term risk (cont'd)***Management of risk associated with long-term debt (cont'd)*

The following table shows the fair value of swaps used to manage risk associated with U.S.-dollar sales and long-term debt, expressed in Canadian dollars:

	2008	2007
Instruments designated as cash flow hedges for U.S.-dollar sales ^a	452	894
Instruments designated as cash flow hedges for debt	(36)	(2 451)
Instruments designated as fair value hedges for debt	104	(274)
	520	(1 831)
Instruments not designated as hedges ^b	(695)	1 548
	(175)	(283)

a) A portion of the long-term debt, with a nominal amount of US\$1 437 million as at December 31, 2008 (US\$1 504 million as at December 31, 2007), was also designated as a cash flow hedge for U.S.-dollar sales.

b) Transactions carried out as part of Hydro-Québec's risk management, including (\$852 million) in 2008 in consideration of amounts received or disbursed with respect to credit risk mitigation agreements (\$1 435 million in 2007).

Management of short-term risk

Currency risk – Hydro-Québec uses options and forward contracts to manage its foreign currency risk exposure over the short term. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact of currency risk hedging transactions on operating results is recorded in the line item corresponding to the hedged item, namely Revenue or Electricity and fuel purchases. The nominal amount of the open positions as at December 31, 2008, was US\$258 million, with US\$52 million in purchase contracts and US\$310 million in sales contracts (US\$563 million as at December 31, 2007, that is, US\$107 million in purchase contracts and US\$670 million in sales contracts).

Interest rate risk – Hydro-Québec uses options, interest rate swaps and forward rate agreements to manage short-term interest rate risk. When designated as hedging items, these derivative instruments are recognized as cash flow hedges. The impact on operating results of transactions to hedge short-term interest rate risk is recorded in Financial expenses.

Market risk – Hydro-Québec uses mainly options, swaps and commodity futures to manage risk resulting from fluctuations in energy and aluminum prices. When these derivative instruments are designated as hedging items, they are recognized as cash flow hedges. The impact on operating results of transactions to hedge the risk of variability in energy and aluminum prices is recorded in the line item corresponding to the hedged item, namely Revenue. Hydro-Québec regularly assesses the probability of realizing these transactions. To hedge exposure to variability in energy and aluminum prices, Hydro-Québec has traded derivative instruments for which open positions as at December 31, 2008, totaled 152 625 tonnes of aluminum (227 525 tonnes as at December 31, 2007) and in electricity swaps for which open positions as at December 31, 2008, were 3.5 TWh (8.0 TWh as at December 31, 2007).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
 (in millions of Canadian dollars)

16. FINANCIAL INSTRUMENTS (cont'd)**Management of long-term risk (cont'd)**

The fair value of derivative instruments used to manage short-term financial risk, depending on whether or not they are designated as hedges, is presented in the following table:

	2008	2007
Instruments designated as cash flow hedges	285	66
Instruments not designated as hedges	8	(11)
	<u>293</u>	<u>55</u>

Effect of hedges**Effect of hedges on operating results***Effect of cash flow hedges*

As at December 31, 2008, the net loss related to the ineffectiveness of cash flow hedges recognized in operations totaled \$15 million (net gain of \$9 million as at December 31, 2007).

As at December 31, 2008, Hydro-Québec estimated at \$401 million the amount of net gains presented in Accumulated other comprehensive income that would be reclassified to operations in the next 12 months (\$222 million as at December 31, 2007).

In 2008, Hydro-Québec did not reclassify any amount from Accumulated other comprehensive income to operations (net gain of \$10 million reclassified in 2007) as a result of the discontinuance of cash flow hedges.

As at December 31, 2008, the maximum period over which Hydro-Québec hedged its exposure to the variability of future cash flows for anticipated transactions was 22 years (23 years as at December 31, 2007).

Effect of fair value hedges

As at December 31, 2008, the net loss related to the ineffectiveness of fair value hedges recognized in operations totaled \$25 million (net gain of \$3 million as at December 31, 2007).

Effect of revaluation of derivative instruments not designated as hedges

As at December 31, 2008, the net gain recognized in operations as a result of the revaluation, at fair value, of derivative instruments not subject to hedge accounting totaled \$143 million (\$32 million as at December 31, 2007). These instruments are essentially related to risk management transactions.

Sensitivity analyses

Integrated management of risk associated with variability in foreign exchange rates, interest rates and aluminum prices aims to limit the impact of such risk on operating results. Most of the derivative instruments traded are designated as cash flow hedges or fair value hedges and therefore reduce the volatility in operating results, except for the ineffective portion of the hedges, which is insignificant.

Derivative instruments which are not designated as hedges, but which nonetheless serve to hedge at-risk opposite positions, also reduce the volatility in operating results. The sensitivity of operating results is thus limited to net exposure to unhedged risks.

As at December 31, 2008, had the exchange rate (C\$/US\$) been 5% higher or lower, net income would have been \$17 million higher or \$7 million lower, respectively, taking into account the impact of hedged sales, while other comprehensive income would have been \$100 million higher or \$104 million lower, respectively.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

16. FINANCIAL INSTRUMENTS (cont'd)**Sensitivity analyses (cont'd)**

For the year ended December 31, 2008, had interest rates been 50 basis points higher or lower, net income would have been \$2 million lower or higher, respectively, while other comprehensive income would have been \$3 million higher or \$4 million lower, respectively.

For the year ended December 31, 2008, had the price of aluminum been 5% higher or lower, net income would have been \$3 million higher or lower, respectively, taking into account the impact of hedged sales, and other comprehensive income would have been \$15 million lower or higher, respectively.

Liquidity risk

Liquidity risk is the risk that Hydro-Québec will have difficulty meeting commitments related to its financial liabilities.

Hydro-Québec's exposure is reduced by a large volume of cash from operations, a diversified portfolio of highly liquid or readily convertible instruments traded with high-quality counterparties, preauthorized capital resources, the quality of Hydro-Québec's signature on financial markets, diversified capital resources and its management of the proportions of variable-rate debt and debt repayable in foreign currency.

In addition, as at December 31, 2008, \$34 881 million in long-term debt, perpetual debt and borrowings was guaranteed by the Québec government (\$33 402 million as at December 31, 2007).

Maturities of financial liabilities are presented in the following table. The amounts reported are contractual undiscounted cash flows, representing payments of principal and interest for financial liabilities as at December 31, 2008.

Maturity	Borrowings ^a	Accounts payable and accrued liabilities	Dividends payable	Long-term debt	Derivative instruments ^b
2009	92	1 527	2 252	3 228	148
2010		51		3 134	1 067
2011		20		4 903	124
2012 ^c		16		3 356	53
2013		2		3 270	115
1 to 5 years	92	1 616	2 252	17 891	1 507
6 to 10 years				11 160	270
11 to 15 years				17 056	198
16 to 20 years ^c				8 287	177
21 to 25 years				8 275	172
26 to 30 years				8 406	
31 to 35 years				6 693	
36 to 40 years				6 875	
41 to 45 years				1 657	
46 to 50 years				1 479	
51 to 55 years				825	
56 years and over				1 425	
Total	92	1 616	2 252	90 029	2 324
Net carrying amount	91 ^d	1,616 ^{d,e}	2 252	30 060 ^f	1 969

a) As at December 31, 2008, the weighted average interest rate on short-term borrowings was 2.59% (4.38% as at December 31, 2007).

b) Agreements entered into with certain counterparties to limit the market value of these financial instruments could result in cash inflows or outflows at dates different from the initially scheduled maturity dates.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

16. FINANCIAL INSTRUMENTS (cont'd)**Liquidity risk (cont'd)**

- c) Certain debts carry sinking fund requirements.
- d) Because of their short-term maturities, the carrying amount of these financial liabilities approximates their fair value.
- e) Of this amount, \$1 527 million is recorded in Accounts payable and accrued liabilities and \$89 million in Other long-term liabilities.
- f) Including the current portion.

Contractual maturities of perpetual debt result in biennial interest flows. Perpetual notes in the amount of \$355 million (US\$289 million) bear interest at a rate determined semiannually based on LIBOR, plus 0.0625%. As at December 31, 2008, the applicable rate was 3.6%.

Credit risk

Credit risk is the risk that one party to a financial asset will fail to meet its obligations.

Hydro-Québec is exposed to credit risk related to cash equivalents, short-term investments and derivative instruments traded with financial institutions. It is also exposed to credit risk related to accounts receivable arising primarily from its day-to-day energy sales in and outside Québec. It should be noted that sales in Québec are billed at rates that allow for recovery of costs based on conditions approved by the Régie. Credit risk is limited to the carrying amount presented under assets on the balance sheet, which approximates fair value.

Cash equivalents, short-term investments and derivative instruments

In order to reduce its credit risk exposure, Hydro-Québec deals with Canadian and international issuers and financial institutions with high credit ratings. In addition, it applies policies to limit risk concentration as well as various monitoring programs and sets credit limits for each counterparty. Through prior agreements, it can also limit the market value of the main derivative instrument portfolios. Any variation in market value beyond the agreed-upon limit results in an inflow or outflow of cash. As at December 31, 2008, substantially all counterparties with whom Hydro-Québec dealt had a rating over A- and none of them had defaulted on their obligations to Hydro-Québec.

Customers – energy sales (recorded in accounts receivable)

Exposure to credit risk from energy sales is limited due to Hydro-Québec's large and diverse customer base. Management is of the opinion that Hydro-Québec is not exposed to a major credit risk. Moreover, Hydro-Québec holds as collateral customer deposits of \$39 million (\$30 million as at December 31, 2007), of which \$9 million is recorded in Accounts payable and accrued liabilities and \$30 million is in Other long-term liabilities.

The value of accounts receivable, by age and net of the related bad debt provision, is presented in the following table.

	2008
Under 30 days ^a	1 481
30 to 60 days	62
61 to 90 days	30
Over 90 days	140
	<u>1 713</u>

- a) Including unbilled electricity deliveries.

In 2008, the bad debt provision increased by \$57 million to \$201 million as at December 31 (\$144 million as at December 31, 2007). The provision is based on account age and customer standing.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

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17. INTERESTS IN JOINT VENTURES

The proportionate share of the joint venture items included in the consolidated financial statements is presented in the following table. These joint ventures consist of the interests managed by Groupe de la technologie and Hydro-Québec Production.

	2008	2007
Operations		
Revenue	26	21
Expenditure and financial expenses	30	26
Income from discontinued operations		1
	<u> </u>	<u> </u>
Net loss	<u>(4)</u>	<u>(4)</u>
Balance sheets		
Current assets	9	13
Long-term assets	35	29
Current liabilities	9	14
Long-term liabilities	35	30
	<u> </u>	<u> </u>
Net liabilities	<u> </u>	<u>(2)</u>
Cash flows		
Operating activities		(4)
Investing activities	(2)	(2)
Financing activities	(3)	(1)
Discontinued operations		(3)
	<u> </u>	<u> </u>
Net change in cash and cash equivalents	<u>(5)</u>	<u>(10)</u>

18. EQUITY**Share capital**

The authorized share capital consists of 50 000 000 shares with a par value of \$100 each, of which 43 741 090 shares were issued and paid-up as at December 31, 2008 and 2007.

Retained earnings

Under the Hydro-Québec Act, the dividends to be paid by Hydro-Québec are declared once a year by the Québec government, which also determines the terms and conditions of payment. For a given financial year, they cannot exceed the distributable surplus, equal to 75% of the year's net operating revenue and net investment income, less interest on debt securities and amortization of debt premiums, discounts and issue expenses. This calculation is based on the consolidated financial statements.

However, in respect of a given financial year, no dividend may be declared in an amount that would have the effect of reducing the capitalization rate to less than 25% at the end of the year. The Québec government declares the dividends for a given year within 30 days after Hydro-Québec has sent it the financial data related to the distributable surplus. Upon expiry of the prescribed period, all or a portion of the distributable surplus that has not been subject to a dividend declaration may no longer be distributed to the shareholder as a dividend.

For 2008, the Québec government declared dividends of \$2 252 million (\$2 095 million in 2007).

The dividends declared are deducted from the retained earnings of the year for which they were declared.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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18. EQUITY (cont'd)**Accumulated other comprehensive income**

	2008		
	Cash flow hedges	Other	Total
Balance, beginning of year	965	(3)	962
Change for the year	278	3	281
Balance, end of year	<u>1 243</u>	<u></u>	<u>1 243</u>
	2007		
	Cash flow hedges	Other	Total
Balance, beginning of year	479	(8)	471
Change for the year	486	5	491
Balance, end of year	<u>965</u>	<u>(3)</u>	<u>962</u>

19. CAPITAL MANAGEMENT

Hydro-Québec manages its capital in such a way as to meet its shareholder's expectations, safeguard its funds at all times and sustain its growth. It fosters a management environment allowing it to enhance the long-term value of its assets and equity, ensure its financial sustainability, preserve its financing capability and safeguard its funds and securities.

In addition to equity, capital includes long-term debt, perpetual debt, short-term borrowings and derivative instruments.

Hydro-Québec uses its capitalization rate to monitor its capital structure. It aims to maintain capitalization at no less than 25%.

Capitalization

	2008	2007
Equity	22 062	20 892
Long-term debt, including current portion	36 060	34 248
Perpetual debt	355	286
Short-term borrowings	91	73
Derivative instruments	(118)	228
Total	<u>58 450</u>	<u>55 727</u>
Capitalization rate (%) ^a	<u>37.7</u>	<u>37.5</u>

a) Equity divided by the sum of equity, long-term debt, perpetual debt, short-term borrowings, current portion of long-term debt and derivative instrument liabilities, less derivative instrument assets.

In 2008, Hydro-Québec's capital management objectives were unchanged from those in 2007.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
 years ended December 31, 2008 and 2007
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20. SUPPLEMENTARY CASH FLOW INFORMATION

	2008	2007
Change in non-cash working capital items		
Accounts receivable	(175)	(172)
Materials, fuel and supplies	6	5
Accounts payable and accrued liabilities		23
Accrued interest	20	(47)
	(149)	(191)
Investing activities not affecting cash		
(Decrease) increase in property, plant and equipment and intangible assets	(92)	90
Interest paid	2 093	2 131

21. EMPLOYEE FUTURE BENEFITS

Hydro-Québec's pension plan (the "Pension Plan") is a funded plan that ensures pension benefits based on the number of years of service and an average of the best five years of earnings. These benefits are indexed annually based on a rate which is the greater of the inflation rate, up to a maximum of 2%, and the inflation rate less 3%.

Hydro-Québec also offers other post-retirement and post-employment benefits. Post-retirement benefits are provided by group life, medical and hospitalization plans, which are contributory plans with contributions adjusted annually. Post-employment benefits are under non-contributory salary insurance plans, which pay short-and long-term disability benefits. Most of these plans are not funded, with the exception of the long-term disability salary insurance plan, which is fully funded, and the supplementary group life insurance plan, which is partially funded.

Hydro-Québec's employee benefit plans are defined-benefit plans. The accrued benefit obligations of these plans, valued by independent actuaries, and assets, at fair value, are valued as at December 31 of each year. The most recent actuarial valuation for funding purposes of the Pension Plan was as at December 31, 2007, and the next valuation must be performed no later than December 31, 2010.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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21. EMPLOYEE FUTURE BENEFITS (cont'd)

The following table presents information concerning Hydro-Québec's employee future benefit plans:

	Pension Plan		Other plans	
	2008	2007	2008	2007
Accrued benefit obligations				
Balance, beginning of year	12 607	12 720	929	850
Current service cost	285	336	42	38
Employee contributions	84	66		
Benefit payments and refunds	(510)	(460)	(51)	(49)
Interest on obligations	712	659	51	46
Actuarial (gains) losses	(3 138)	(714)	(198)	44
Amendments to the Pension Plan	168			
Balance, end of year	10 208	12 607	773	929
Plan assets at fair value				
Balance, beginning of year	12 926	12 811	58	56
Actual return on plan assets	(2 434)	538	2	2
Employee contributions	84	66		
Current contributions by Hydro-Québec	291	5	11	11
Special contribution by Hydro-Québec	149			
Benefit payments and refunds	(510)	(460)	(11)	(12)
Administrative fees	(31)	(34)		
Balance, end of year	10 475	12 926	60	57
Surplus (deficit), end of year	267	319	(713)	(872)
Unamortized past service costs	335	217		
Unamortized net actuarial loss (gain)	1 292	1 205	(17)	190
Unamortized transitional (asset) obligation	(761)	(913)	67	81
Accrued benefit asset (liability)	1 133	828	(663)	(601)

In 2008, some amendments were made to the Pension Plan following agreements reached between Hydro-Québec and its unions. These amendments, which came into force on January 1, 2009, concern temporary and permanent provisions. The main temporary provisions concern retirement without pension reduction and the bridging benefit, whereas the main permanent provisions apply to the cost of optional pension forms and the broadening of the definition of the surviving spouse upon a retiree's death. Amendments to the funding rules of the Pension Plan were also adopted under these agreements. As a result, the rates for employee and employer contributions have been 6.0% and 6.9%, respectively, since January 1, 2009. These rates will be increased annually by 0.5% and 0.9% until they reach up to 7.5% and 10.5% of the eligible base earnings in 2013.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
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21. EMPLOYEE FUTURE BENEFITS (cont'd)**Additional disclosures with respect to plan assets**

At year end, assets of the plans at fair value consisted of:

	Pension Plan		Other plans	
	2008	2007	2008	2007
%				
Bonds	54	39	91	95
Equities	32	46		
Real-estate investments	10	6		
Short-term investments	4	9		
Other			9	5
	100	100	100	100

Assets of the plans include the following securities issued by Hydro-Québec and the Québec government:

	Pension Plan		Other plans	
	2008	2007	2008	2007
Bonds	1 359	1 266	56	55

Cash payments

Cash payments made by Hydro-Québec for employee benefit plans consist of the contributions paid to the funded plans and the benefits paid to employees and pensioners under unfunded plans. The cash payment details are as follows:

	2008	2007
Contributions by Hydro-Québec		
Pension Plan	440	5
Other funded plans	11	11
Benefit payments		
Unfunded plans	41	38
Cash payments	492	54

In compliance with the actuarial valuation for funding purposes as at December 31, 2007, Hydro-Québec made a current contribution of \$291 million in 2008, including an additional contribution of \$208 million, to cover the current service cost, and a special contribution of \$149 million to cover the unfunded actuarial liability.

In 2007, Hydro-Québec took a contribution holiday as of February 16, namely the filing date of the actuarial valuation with the Régie des rentes du Québec. Earlier in 2007, Hydro-Québec had made a contribution of \$5 million to the Pension Plan.

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
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21. EMPLOYEE FUTURE BENEFITS (cont'd)**Elements of accrued benefit cost recognized for the year**

	Pension Plan		Other plans	
	2008	2007	2008	2007
Current service cost ^a	285	336	42	38
Administrative fees ^b	31	34		
Interest on obligations	712	659	51	46
Actual return on plan assets	2 434	(538)	(2)	(2)
Actuarial (gains) losses	(3 138)	(714)	(198)	44
Amendments to the Pension Plan	168			
Cost (credit) before adjustments required to recognize the long-term nature of employee future benefits	492	(223)	(107)	126
Difference between actual and expected return on assets	(3 237)	(201)		
Difference between actuarial (gains) losses on accrued benefit obligations and actuarial losses recognized	3 150	829	207	(34)
Difference between amendments to the Pension Plan and amortization of past service cost	(118)	39		
Amortization of transitional (asset) obligation	(152)	(152)	14	14
	(357)	515	221	(20)
Cost recognized for the year	135	292	114	106

a) For the long-term disability salary insurance plan, the current service cost corresponds to the cost of new disability cases for the year.

b) Administrative fees billed to the Pension Plan by the Hydro-Québec amounted to \$12 million for 2008 (\$13 million for 2007).

Significant actuarial assumptions

The following actuarial assumptions, used to determine the accrued benefit obligations and cost of the plans, result from a weighted average:

%	Pension Plan		Other plans	
	2008	2007	2008	2007
Accrued benefit obligations				
Rate at end of year				
Discount rate	7.49	5.53	7.49	5.53
Salary escalation rate ^a	2.86	3.26		
Accrued benefit cost recognized				
Rate at end of prior year				
Discount rate	5.53	5.20	5.53	5.20
Expected long-term rate of return on plan assets	6.25	6.25	3.81	4.23
Salary escalation rate ^a	3.26	3.38		

a) This rate takes salary increases into account as well as promotion opportunities while in service.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

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21. EMPLOYEE FUTURE BENEFITS (cont'd)**Significant actuarial assumptions (cont'd)**

As at December 31, 2008, health care costs were based on an annual growth rate of 7.5% for 2009. Thereafter, based on the assumption used, this rate will gradually decrease until it ultimately reaches 4.6% in 2017. A change of 1% in this annual growth rate would have had the following impact for 2008:

	<u>1% increase</u>	<u>1% decrease</u>
Impact on current service cost and interest cost on accrued benefit obligations for the year	6	(5)
Impact on accrued benefit obligations at end of year	40	(33)

22. COMMITMENTS AND CONTINGENCIES**Electricity purchases**

On May 12, 1969, Hydro-Québec signed a contract with Churchill Falls (Labrador) Corporation Limited [CF(L)Co] whereby Hydro-Québec undertook to purchase substantially all the output from Churchill Falls generating station, which has a rated capacity of 5 428 MW. Expiring in 2016, this contract will be automatically renewed for a further 25 years under agreed-upon terms and conditions. On June 18, 1999, Hydro-Québec and CF(L)Co entered into a contract to guarantee the availability of 682 MW of additional power until 2041 for the November 1 to March 31 winter period.

As at December 31, 2008, Hydro-Québec was committed under 115 contracts to purchase electricity from other power producers, for an installed capacity of about 5 792 MW. It expects to purchase approximately 22 TWh of energy annually over the terms of these contracts, which extend through 2045. The majority of these contracts include renewal clauses.

Hydro-Québec expects to make the following minimum payments on all its electricity purchase contracts over the next five years:

2009	690
2010	1 098
2011	1 158
2012	1 376
2013	1 596

Guarantees

Hydro-Québec grants guarantees to third parties for indemnification purposes in connection with its energy-related transactions on markets outside Québec. These guarantees are issued under long-term agreements and agreements governing its involvement in organized markets. These markets require that each participant provide guarantees enabling it to meet its obligations in the event of a default of payment by another participant. Hydro-Québec also grants guarantees as part of its international operations and in the field of electrotechnology.

As at December 31, 2008, the potential maximum amount Hydro-Québec could have had to pay under letters of credit or guarantees provided as security totaled \$405 million. Of this amount, \$326 million was related to energy purchases. Guarantees amounting to \$140 million will expire between 2009 and 2019, while others totaling \$265 million do not have maturity dates.

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

22. COMMITMENTS AND CONTINGENCIES (cont'd)**Guarantees (cont'd)**

Hydro-Québec provided guarantees to the purchasers of its interests with respect to contingent tax liabilities and certain other customary representations. These guarantees, for which no liability was recognized, will be in effect until the applicable limitation periods expire.

In accordance with the terms and conditions of certain debt securities issued outside Canada, Hydro-Québec has undertaken to increase the amount of interest paid to non-residents in the event of changes to Canadian tax legislation governing the taxation of non-residents' income. Hydro-Québec cannot estimate the maximum amount it might have to pay under such circumstances. Should an amount become payable, Hydro-Québec has the option of redeeming most of the securities in question. As at December 31, 2008, the amortized cost of these debts was \$4 769 million.

Under the contract signed on May 12, 1969, with CF(L)Co, Hydro-Québec could be required to provide additional funding if CF(L)Co were unable to pay its expenses and service its debt. The maximum amount that Hydro-Québec could be required to pay cannot be reasonably evaluated, however, since it is not stated in the contract and since the amount payable would depend on the outcome of future events whose nature and probability cannot be determined. To date, Hydro-Québec has not had to pay any amount under this contract.

Investments

Hydro-Québec expects to invest approximately \$4.7 billion in property, plant and equipment and intangible assets in 2009.

Litigation

In the normal course of its development and operating activities, Hydro-Québec is sometimes party to claims and legal proceedings. Management is of the opinion that adequate provisions have been made for any disbursements that could result from these legal actions. Consequently, it does not foresee any adverse effect of such contingent liabilities on Hydro-Québec's consolidated operating results or financial position.

23. RELATED PARTY TRANSACTIONS

Hydro-Québec enters into various business transactions, including sales of electricity, with the Québec government and its agencies, as well as with other government corporations in the normal course of business. These business transactions are measured at the exchange amount.

The main transactions and balances owing to related parties or owed by them are as follows:

	2008	2007
Québec government		
Accounts receivable	5	7
Accounts payable	26	45
Capital tax	202	278
Public utilities tax	302	240
Water-power royalties	546	263
Guarantee fees	167	169
Significantly influenced investees		
Accounts payable	9	14
Electricity purchases	98	106

HYDRO-QUÉBEC**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

years ended December 31, 2008 and 2007

(in millions of Canadian dollars)

24. SEGMENTED INFORMATION

Hydro-Québec carries on its activities in the four reportable business segments defined below. The non-reportable business segments and other activities are grouped together under Corporate and Other Activities for reporting purposes.

Generation: Hydro-Québec Production operates and develops Hydro-Québec's generating facilities. This division also sells electricity on external markets and engages in energy trading. Hydro-Québec Production provides Hydro-Québec Distribution with a base volume of up to 165 TWh of heritage pool electricity annually at an average price of 2.79¢/kWh. In excess of this volume, it can participate in Hydro-Québec Distribution's calls for tender in a context of free market competition.

Transmission: Hydro-Québec TransÉnergie operates and develops Hydro-Québec's power transmission system in Québec and manages power flows on the transmission system.

Distribution: Hydro-Québec Distribution operates and develops Hydro-Québec's distribution system and is responsible for sales and services to Québec customers. It also promotes energy efficiency and ensures the security of the supply of electricity to the Québec market.

Construction: Hydro-Québec Équipement carries out engineering, refurbishment and construction work related to hydroelectric development projects throughout Québec, except on the territory governed by the James Bay and Northern Québec Agreement, where Société d'énergie de la Baie James assumes this responsibility. Hydro-Québec Équipement also builds power transmission lines and substations throughout the province.

Corporate and Other Activities: The corporate units support the divisions in the achievement of their business objectives. They include Groupe de la technologie, Groupe des affaires corporatives et du secrétariat général, Groupe des ressources humaines et des services partagés, Vice-présidence à la comptabilité et au contrôle and Vice-présidence au financement, à la trésorerie et à la caisse de retraite. The Centre de services partagés brings together internal services including goods and services procurement, real estate management, and material and transportation service management.

The amounts presented for each segment are based on the financial information used to prepare the consolidated financial statements. The accounting policies used to calculate these amounts are as described in Notes 1 and 3.

Intersegment transactions related to electricity sales are recorded based on the supply and transmission rates provided for by the Act respecting the Régie de l'énergie. The Act sets a commodity rate for an annual base volume of up to 165 TWh of heritage pool electricity for the Québec market.

Other intersegment products and services are measured at full cost.

Hydro-Québec derives the bulk of its revenue in Québec, and substantially all its property, plant and equipment is located in the province. In 2008, revenue from outside Québec amounted to \$2 099 million, with \$1 776 million coming from the U.S. (\$1 780 million and \$1 483 million, respectively, in 2007).

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

24. SEGMENTED INFORMATION (cont'd)

Operations and assets by segment

							2008
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	2 066	52	10 540		32	27 ^a	12 717
Intersegment	4 931	2 733	62	2 416	1 156	(11 298)	
Depreciation and amortization	777	611	828	5	127	(12)	2 336
Financial expenses	1 101	817	486		41		2 445
Income from continuing operations	2 137	481	421		(39)	12	3 012
Net income	2 137	481	421		90	12	3 141
Total assets	30 651	17 158	12 274	360	6 734	(403)	66 774
Investing activities							
Increase (decrease) in property, plant and equipment and intangible assets							
Affecting cash	1 894	1 097	664	5	96		3 756
Not affecting cash	(113)	17	4				(92)

HYDRO-QUÉBEC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

24. SEGMENTED INFORMATION (cont'd)**Operations and assets by segment (cont'd)**

							2007
	Generation	Transmission	Distribution	Construction	Corporate and Other Activities	Intersegment eliminations and adjustments	Total
Revenue							
External customers	1 649	37	10 452		49	143 ^a	12 330
Intersegment	5 103	2 785	56	2 150	1 163	(11 257)	
Depreciation and amortization	837	636	446	7	77	(12)	1 991
Financial expenses	1 180	817	484		31		2 512
Income from continuing operations	2 077	396	395		2	12	2 882
Net income	2 077	396	395		27	12	2 907
Total assets	29 509	16 707	11 833	263	6 814	(260)	64 866
Investing activities							
Increase in property, plant and equipment and intangible assets							
Affecting cash	1 807	844	721	3	89		3 464
Not affecting cash	41	14	35				90

a) Resales of excess supply by Hydro-Québec Distribution on outside markets are presented as offsets of electricity purchases rather than in Revenue.

25. COMPARATIVE INFORMATION

Some of the prior year's data have been reclassified to conform to the presentation adopted in the current year.

HYDRO-QUÉBEC**MANAGEMENT REPORT**

Hydro-Québec's consolidated financial statements and all additional information contained in this Annual Report are the responsibility of Management and are approved by the Board of Directors. The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and take into account the decisions handed down by the Régie de l'énergie with respect to the transmission and distribution of electricity. They include amounts determined based on Management's best estimates and judgment. Financial information presented elsewhere in the Annual Report is consistent with the information provided in the consolidated financial statements.

Management maintains an internal control system which includes communicating Hydro-Québec's code of ethics and a code of conduct to employees, primarily to ensure the proper management of resources and the orderly conduct of business. The objective of this system is to provide reasonable assurance that the financial information is pertinent and reliable and that the assets of Hydro-Québec are adequately recorded and safeguarded. An internal auditing process allows evaluation of the sufficiency and effectiveness of control, as well as of Hydro-Québec's policies and procedures. Recommendations ensuing from this process are submitted to Management and the Audit Committee.

The Board of Directors is responsible for corporate governance. It assumes its responsibility for the consolidated financial statements principally through its Audit Committee, composed solely of independent directors, who do not hold full-time positions within Hydro-Québec or in one of its subsidiaries. The Audit Committee's mandate is to ensure that the consolidated financial statements present fairly Hydro-Québec's financial position, the results of its operations, its cash flows and its comprehensive income, and to recommend the financial statements to the Board of Directors for approval. The Audit Committee meets regularly with Management, the Internal Auditor and the external auditors to discuss the results of their audits and the resulting findings with respect to the integrity and the quality of Hydro-Québec's financial reporting as well as the effectiveness of its internal control system. The Internal Auditor and the external auditors have full and unrestricted access to the Audit Committee, with or without Management present.

The external auditors are appointed by the Québec government, the sole shareholder of Hydro-Québec. The 2008 and 2007 consolidated financial statements have been audited jointly by the external auditors, KPMG LLP and Ernst & Young LLP.

Michael L. Turcotte
Chairman of the Board

Thierry Vandal
President and Chief Executive Officer

Lise Croteau
Vice President – Accounting and Control

Montréal, Québec, February 6, 2009

HYDRO-QUÉBEC

AUDITORS' REPORT

To the Minister of Finance of Québec:

We have audited the consolidated balance sheets of Hydro-Québec as at December 31, 2008 and 2007, and the consolidated statements of operations, retained earnings, cash flows and comprehensive income for the years then ended. These financial statements are the responsibility of Hydro-Québec's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Hydro-Québec as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles. As required by the Auditor General Act (R.S.Q., c. V-5.01), we report that, in our opinion, except for the application of changes in accounting policies described in Note 2 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP
Chartered Accountants

Ernst & Young LLP
Chartered Accountants

Montréal, Québec, February 6, 2009

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
as at December 31
(in millions of Canadian dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Investments (Note 3)	10 439	12 926
Amounts due from pending trades	12	19
Interest and dividends receivable	42	50
Member contributions receivable	2	5
Employer contributions receivable	<u>8</u>	<u></u>
Total assets	<u>10 503</u>	<u>13 000</u>
LIABILITIES		
Amounts payable for pending trades	18	61
Other accounts payable	<u>10</u>	<u>13</u>
Total liabilities	<u>28</u>	<u>74</u>
Net assets available for benefits	<u><u>10 475</u></u>	<u><u>12 926</u></u>

See notes to the financial statements.

On behalf of Hydro-Québec's Board of Directors,
with Hydro-Québec acting as the Pension Fund trustee,

Jacques Leblanc
Chairman of the Audit Committee

Michael L. Turcotte
Chairman of the Board

HYDRO-QUÉBEC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
year ended December 31
(in millions of Canadian dollars)

	<u>2008</u>	<u>2007</u>
CHANGES DUE TO INVESTMENT ACTIVITIES		
Investment income (Note 5)	343	477
(Net loss) gain on investments (Note 5)	(2 765)	71
Transaction costs	(12)	(10)
Investment management costs	<u>(24)</u>	<u>(26)</u>
	<u>(2 458)</u>	<u>512</u>
CHANGES DUE TO PENSION ACTIVITIES		
Contributions (Note 6)	524	71
Benefits	(510)	(460)
Plan administration costs	<u>(7)</u>	<u>(8)</u>
	<u>7</u>	<u>(397)</u>
(DECREASE) INCREASE IN NET ASSETS	(2 451)	115
NET ASSETS AVAILABLE AT BEGINNING OF YEAR	<u>12 926</u>	<u>12 811</u>
NET ASSETS AVAILABLE AT END OF YEAR	<u>10 475</u>	<u>12 926</u>

See notes to the financial statements.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

1. DESCRIPTION OF PLAN

The following description of the Hydro-Québec Pension Plan (the “Plan”) is a summary only. For more complete information, reference should be made to By-law 707 in respect of the Hydro-Québec Pension Plan (the “By-law”). On January 1, 2009, By-law 734 came into effect. The changes result from agreements reached with the unions in 2008. They are summarized in paragraph 1) below.

a) General

Hydro-Québec (the “Employer”) offers to all employees a contributory defined benefit pension plan based on final pay.

The Plan is registered with the Régie des rentes du Québec and the Canada Revenue Agency.

Hydro-Québec is the trustee of the pension fund and, in this capacity, manages the Plan’s investments.

b) Funding policy

Under the By-law, members and the Employer must fund the Plan to accrue defined benefits under the Plan’s provisions. The value of accrued benefits is based on an actuarial valuation that must be filed at least once every three years. The actuarial valuation is established on a funding and on a solvency basis.

The actuarial valuation report for the Plan sets out the amount to be paid by the Employer to the Pension Plan fund. Employer contributions cover the balance of the current service cost not funded by member contributions or by a sufficient surplus established by an actuarial valuation. Amortization payments must be made by the Employer in order to fund any actuarial deficit. Under the Supplemental Pension Plans Act, the amortization period may not exceed 15 years for a funding deficit and 5 years for a solvency deficit.

According to the By-law, additional employer contributions paid over and above regular contributions and amortization payments are accrued and credited according to the rate of return of the fund. They are remitted to the Employer as soon as a sufficient funding surplus is reported. This remittance takes the form of a reduction in the regular employer contributions.

c) Regular member and employer contributions

The By-law provides for the suspension of regular member and employer contributions when the actuarial valuation report for the Plan shows a funding ratio greater than or equal to 110%. The members and the Employer will resume contributions when the actuarial valuation for Plan funding purposes shows a funding ratio that is less than 110%. Member contributions cannot be increased by more than 1% of earnings each year, and regular Employer contributions equal 180% of member contributions up to the maximum amounts set out in the By-law.

Maximum contributions may not exceed 6.3% of earnings up to the basic exemption established by the Act respecting the Québec Pension Plan, 4.5% of that portion of earnings between the basic exemption and the maximum pensionable earnings and 6.3% of that portion of earnings exceeding the maximum pensionable earnings.

d) Retirement age

Normal retirement age is 65. However, as of 55 years of age, members may receive an offset benefit or a normal retirement annuity, in accordance with the provisions of the By-law. In addition, until December 31, 2008, the Plan offered members the possibility of receiving a normal retirement annuity, regardless of their age, if the sum of their age and the number of years of contribution meets the conditions set out in the By-law.

e) Retirement benefits

Retirement benefits are based on an annual 2.25% pension credit in respect of years of credited service and on the average five best years of earnings, save for exceptions provided for in the By-law. Pensionable earnings include certain lump sums, in whole or in part, paid under profit-sharing or performance management plans.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

1. DESCRIPTION OF PLAN (cont'd)**e) Retirement benefits (cont'd)**

Bridging benefits, payable until the ages of 60 and 65, are offered to members who leave before the normal retirement age. They are calculated based on the number of years of credited service in the Plan prior to January 1, 2009, and on the average of the earnings for the best five years, up to the average maximum pensionable earnings of the five years preceding the date of termination of employment, death or retirement.

Benefits in respect of years of service after 1991 are subject to the limits prescribed in the Income Tax Act (Canada).

After retirement, vested benefits are adjusted for inflation according to a formula based on the consumer price index.

On the 65th birthday of a member, vested benefits are reduced by an amount determined pursuant to the By-law so as to be coordinated with the retirement benefits paid by the Régie des rentes du Québec.

f) Death benefits

In the event of death, benefits are payable to a spouse, eligible children or beneficiaries. Survivor benefits can take the form of an annuity, a refund or transfer of the value of an annuity, or a refund or transfer of member contributions, as appropriate.

g) Termination benefits (deferred retirement benefits, value transfers and refunds)

If the member is under 55 years of age at the time of termination of employment, the benefits payable will be the actuarial present value of the retirement benefit as presented above or a deferred retirement benefit payable when the member reaches the age of 55. If the member is 55 years of age or older at the time of termination of employment, the member may receive a retirement benefit on the first day of the month following termination of employment or a deferred retirement benefit or a transfer of the actuarial present value of the retirement benefit.

h) Buyback of pension credits

The By-law allows members to buy back pension credits for various unpaid or partially paid leaves of absence until December 31, 2008.

i) Value transfers

Under the By-law, the Employer may draw up an agreement with any other employer that has a pension plan to facilitate the mutual transfer of their employees. Transfer payments received under such an agreement are used to recognize members' years of service in the Plan.

j) Plan administration and investment management costs

According to the provisions of the By-law, plan administration and investment management costs incurred by Hydro-Québec in respect of the Pension Plan are assumed by the pension fund.

k) Income taxes

The Plan is a registered pension plan within the meaning of the Income Tax Act (Canada) and therefore is not subject to income tax.

l) New provisions

By-law No.734 came into effect on January 1, 2009. The principal changes resulting from this By-law apply to the employees concerned, namely managers, non-unionized employees and unionized employees whose union signed an agreement with Hydro-Québec. These changes are as follows:

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

1. DESCRIPTION OF PLAN (cont'd)

l) New provisions (cont'd)

Regular member and employer contributions

The rate for employer contributions will increase gradually until it reaches a maximum of 10.5%.

The rate for member contributions will increase gradually until it reaches a maximum of 7.5%, with the possibility to reduce this rate by 0.5% or 1% depending on certain conditions.

Temporary provisions

The temporary provisions relating to retirement age, bridging benefits payable until the member reaches 60 and 65 years of age and the buyback of pension credits will be extended until December 31, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The financial statements of the Hydro-Québec Pension Plan have been prepared on a going-concern basis in accordance with Canadian generally accepted accounting principles. These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of its sponsor, Hydro-Québec, and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the year. However, they do not portray the funding requirements of the Plan or the benefit security of individual members.

The presentation of financial statements for the Plan requires that the plan trustee make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. In the opinion of the plan trustee, the financial statements have been properly prepared using careful judgment within reasonable limits of materiality, and within the framework of the accounting policies summarized below.

b) Investments

Investments are recorded according to the nature of the security, regardless of the associated derivatives.

Investment transactions are recorded at the moment when the risks and rewards of ownership are transferred. Publicly traded securities are recorded on the trade date.

Investments are stated at market value, which is determined using publicly quoted prices. When such market prices are not available, market values are estimated on the basis of the present value of estimated future net cash flows, the market value of comparable assets, or the break-up value of underlying assets. Any gains or losses on changes in fair market value and transaction costs are reflected on the Statement of changes in net assets available for benefits under (Net loss) gain on investments. Market value is determined as follows:

Cash and short-term deposits

Cash and short-term deposits (bank deposits, treasury bills, deposit certificates and bankers' acceptances) are valued at cost, which approximates their fair value.

Bonds

Bonds are valued at average closing bond market prices.

Equities

Equities are valued at closing market prices.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**b) Investments (cont'd)***Real estate investments*

Real estate investments are valued at their most recent estimated fair value. An independent appraisal is performed at least once a year for real estate and related mortgages. A review is performed to ensure that there was no significant event occurring between the appraisal and year end, that could significantly alter the values.

Derivatives

Listed derivative are valued using quoted market prices. Where quoted market values are not available, derivatives are valued using the present value of future net cash flows determined by using closing market prices and interest rates for instruments of similar maturity and credit risk. They include forward and futures contracts, options and swap agreements.

c) Investment income

Dividends are recognized at the ex-dividend date, while other income is recognized on the accrual basis as earned.

d) Gains and losses realized on investments

Gains and losses realized on the sale of investments are accounted for at the date of the sale, computed using the average cost of the assets, and are recorded in the Statement of changes in net assets available for benefits under (Net loss) gain on investments.

e) Transaction costs

Transaction costs are accounted for when they are incurred and are recorded in the Statement of changes in net assets available for benefits under Transaction costs.

f) Foreign currency translation

The fair values of assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at year end. Income from transactions made in foreign currencies is translated into Canadian dollars at the exchange rates prevailing on the transaction date.

g) Contributions and transfers

Member contributions, regular and additional employer contributions, and amortization payments by the employer, are recorded on an accrual basis. Transfer payments are recorded as member contributions when received.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

3. INVESTMENTS

The Hydro-Québec pension fund investment policy sets forth the principles governing the management of pension fund investments.

Cost of investments and fair value

	2008		2007	
	Fair value	Cost	Fair value	Cost
Cash	20	20	56	56
Short-term deposits				
Canadian dollars	469	469	1 014	1 014
U.S. dollars			141	140
	489	489	1 211	1 210
Nominal bonds				
Canadian dollars	4 121	3 822	4 315	3 970
U.S. dollars			10	12
Other currencies			14	15
Floating rate notes	839	870	52	53
Real return bonds	624	551	626	471
	5 584	5 243	5 017	4 521
Equities				
Canadian dollars	1 471	1 757	3 171	2 571
U.S. dollars	906	1 047	1 318	1 343
Other currencies	995	1 140	1 401	1 323
	3 372	3 944	5 890	5 237
Real estate investments ^a	1 013	731	815	503
Derivatives (note 4)	(19)	(11)	(7)	(17)
	10 439	10 396	12 926	11 454

a) Net of the value of mortgages, totalling \$333 million (\$268 million in 2007).

As at December 31, 2008, investments having a market value of \$349 million (\$170 million as at December 31, 2007) were pledged as collateral or margin with a financial institution in accordance with derivative contracts to cover daily market requirements.

a) Foreign currency risk

Foreign currency risk results from Plan investments denominated in currencies other than the Canadian dollar.

Currency exposure ^a (%)

	2008	2007
Canadian dollars	82	80
U.S. dollars	8	7
Other currencies	10	13
	100	100

a) After allocating the effect of derivatives.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

3. INVESTMENTS (cont'd)**a) Foreign currency risk (cont'd)**

Derivatives are used to manage foreign currency risk and to take advantage of opportunities on the foreign exchange market.

As at December 31, 2008, if the U.S. exchange rate had increased or decreased by 5%, the value of investments stated in U.S. dollars would have been approximately \$33 million higher or lower (\$41 million as at December 31, 2007), considering a 50% hedge, in accordance with the pension fund investment policy. Moreover, if the exchange rate for the euro had been 5% higher or lower, the value of investments stated in euros, which are unhedged, would have been approximately \$19 million higher or lower (\$29 million as at December 31, 2007).

b) Market risk

Market risk refers to the possibility that the market value of an investment will fluctuate due to changes in market price caused by factors specific to the security or its issuer or factors affecting all securities traded on the market. The pension fund investment policy favors a diversified asset mix to manage the portfolio's market risk.

The equities and bonds are from different issuers and sectors. The following table presents the breakdown of securities by economic sector:

Investment classification by economic sector

	2008			2007		
	Bonds	Equities	Total	Bonds	Equities	Total
Government	3 978		3 978	4 207		4 207
Financial						
services	1 379	899	2 278	599	1 589	2 188
Energy	109	631	740	81	938	1 019
Consumer	12	611	623	12	1 058	1 070
Industrial	2	108	110		535	535
Other	104	1 123	1 227	118	1 770	1 888
	<u>5 584</u>	<u>3 372</u>	<u>8 956</u>	<u>5 017</u>	<u>5 890</u>	<u>10 907</u>

c) Interest rate risk

Interest rate risk refers to the effect on the market value of Plan assets and liabilities due to the fluctuation in interest rates. The impact on the value of fixed income investments depends on the maturities and cash flows of the pension fund's assets. As at December 31, 2008, if interest rates had increased by 1%, the market value of investments would have decreased by 11.6% or \$490 million (12% or \$521 million as at December 31, 2007). However, the actuarial present value of accrued retirement benefits for the Plan would have decreased by an even larger amount.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

3. INVESTMENTS (cont'd)**c) Interest rate risk (cont'd)**

Maturities and average effective yields of fixed income investments

	2008			
	Maturities			
	< 1 year	1 to 5 years	> 5 years	Total
Short-term deposits	469			469
Nominal bonds	103	760	3 258	4 121
Floating rate notes		827	12	839
Real return bonds			624	624
	572	1 587	3 894	6 053

%
Average
effective
yield

2.7 ^a

a) Real effective rate.

	2007			
	Maturities			
	< 1 year	1 to 5 years	> 5 years	Total
Short-term deposits				
Canadian dollars	1 014			1 014
U.S. dollars	141			141
Nominal bonds				
Canadian dollars	11	880	3 424	4 315
U.S. dollars			10	10
Other currencies			14	14
Floating rate notes	13	27	12	52
Real return bonds			626	626
	1 179	907	4 086	6 172

%
Average
effective
yield

2.1 ^a

a) Real effective rate.

d) Credit risk

As at December 31, 2008, the largest credit concentration was in Government of Canada bonds and treasury bills. These securities, with a fair value of \$1 552 million, represented 14.8% of the total investments as at December 31, 2008 (\$2 062 million and 16% as at December 31, 2007).

Derivatives include an inherent element of risk, since a counterparty may be unable to meet its obligations. However, this risk is considered to be low given that Hydro-Québec, as trustee, deals only with recognized stock exchanges and counterparties with a credit rating of A or higher.

e) Real estate commitment

As at December 31, 2008, the pension fund had a commitment to subscribe to up to \$61.5 million of the share capital of real estate corporations. This full amount may be due as soon as 2009.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

4. DERIVATIVES

The Hydro-Québec pension fund investment policy allows for the use of derivatives to effectively and cost-effectively manage pension fund assets. Derivatives may be used to change the asset mix, as well as in certain portfolios to take advantage of market opportunities.

The value of a derivative is based on the value of the underlying asset, interest rate, index or exchange rate.

a) Forward and futures contracts

Forward and futures contracts are contractual agreements to buy or sell a currency or a given financial instrument at the specific date and prices set out in the contract. These could be foreign exchange forward contracts or currency futures, commodity futures, equity index futures or bond futures.

b) Swaps

Swaps are contractual agreements under which fixed or variable interest payments are exchanged for fixed or variable rate interest amounts receivable or for a return based on changes in certain stock or bond indexes, depending on the type of contract.

c) Options

Options are contracts where the holder has the right rather than the obligation to take delivery of or to deliver a financial instrument at the specified price at a given date or within a specified time frame.

The following table presents the notional amounts and the fair value of derivatives held as at December 31.

Derivatives classification by market category and type of instrument

	2008		2007	
	Notional amount	Fair value	Notional amount	Fair value
Equity derivatives				
Forward and futures contracts	1 022		1 091	
Exchange traded long options	220		248	(3)
Short options				
Exchange traded	157	(2)	210	(4)
Over-the-counter	49	(1)	82	(4)
Swaps	425	2		
Currency derivatives				
Forward and futures contracts	1 244	(8)	3 854	7
Over-the-counter long options			35	
Over-the-counter short options			30	
Interest rate derivatives				
Forward and futures contracts	1 009		2 531	
Exchange traded long options	239	(2)	173	(1)
Exchange traded short options			165	(1)
Swaps	131	(1)	62	
Commodity derivatives				
Forward and futures contracts	254		292	
Exchange traded long options	30		58	(1)
Exchange traded short options	142	(7)	15	
		<u>(19)</u>		<u>(7)</u>

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

4. DERIVATIVES (cont'd)

The contracts for derivatives mature within one year, except for certain forward and futures contracts and certain swaps whose notional amount totals \$234 million and which mature between December 2010 and December 2023.

The following schedule summarizes the pension fund portfolio's final exposure to market risk as at December 31, 2008. This exposure results from direct investments and the use of derivatives. The effect of derivatives is presented according to the fair value of the underlying financial instruments. Investments include interest and dividends receivable.

Asset classification by final exposure to market risk

	2008	2007
Fixed interest securities		
Nominal bonds	3 971	4 005
Real return bonds	626	628
Cash and short-term deposits	72	289
Equities of developed countries		
Canadian market	2 339	3 693
U.S. market	1 267	1 672
International market	1 089	1 615
Other investments		
Real estate investments	1 016	818
Emerging markets	101	
Commodities		256
Total assets	<u>10 481</u>	<u>12 976</u>
Commodities – overlay exposure	<u>219</u>	

5. INVESTMENT INCOME

	2008		2007	
	Investment income	(Net loss) gain on investments ^a	Investment income	(Net loss) gain on investments ^a
Cash and short-term deposits	34	(2)	45	(7)
Bonds	227	(84)	187	(18)
Equities	122	(1 812)	209	(132)
Real estate investments	48	(30)	36	104
Derivatives	(88)	(837)		124
	<u>343</u>	<u>(2 765)</u>	<u>477</u>	<u>71</u>

a) Including net realized losses totalling \$1 336 million (net gains of \$947 million in 2007).

6. CONTRIBUTIONS

The average member contribution rate in 2008 was 4.9% of pensionable earnings (4% in 2007) while regular employer contributions represented on average 5.2% of pensionable earnings (5.2% in 2007).

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

6. CONTRIBUTIONS (cont'd)**Contributions**

	2008	2007
Members		
Regular contributions	77	61
Buybacks	7	5
	<u>84</u>	<u>66</u>
Employer		
Regular contributions	83	5 ^a
Additional contributions	208	
Amortization payments	149	
	<u>440</u>	<u>5</u>
	<u>524</u>	<u>71</u>

a) Regular unpaid contributions totalling \$72 million for 2007.

An actuarial valuation report as at December 31, 2007 was filed with the Régie des rentes du Québec in May 2008. This valuation showed a funding surplus of \$47 million and a solvency deficit of \$149 million. Due to this deficit, employer contributions for 2008 were increased in excess of the regular contributions to cover the current service cost, which exceeds regular member and employer contributions. The Employer also made an amortization payment of \$149 million to cover the solvency deficit as at December 31, 2007.

Pursuant to the contribution rules provided in the By-law, employer contributions had been suspended in early 2007 since there were sufficient surpluses as at December 31, 2006.

Accumulated additional contributions and amortization payments

	2008	2007
Accumulated additional contributions and amortization payments at beginning of year	626	672
Contributions for the year	357	
Regular unpaid employer's contributions		(72)
Interest according to pension fund's rate of return	(149)	26
	<u>834</u>	<u>626</u>

7. OBLIGATIONS FOR PENSION BENEFITS

The actuarial consulting firm of Aon Consulting produced a report on the costs and obligations of the Plan for accounting purposes. The report discloses the net assets available for benefits at the fair value, according to the financial statements, and the actuarial present value of accrued retirement benefits as at December 31, 2008.

The actuarial present value of accrued retirement benefits is determined using the projected benefit method prorated on years of service and Hydro-Québec Management's best estimate assumptions with respect to future events.

HYDRO-QUÉBEC PENSION PLAN

NOTES TO FINANCIAL STATEMENTS (cont'd)
for the years ended December 31, 2008 and 2007
(in millions of Canadian dollars)

7. OBLIGATIONS FOR PENSION BENEFITS (cont'd)**Actuarial present value of accrued benefits**

	2008	2007
Balance at beginning of year	12 607	12 685
Accrued pension benefits	369	402
Interest on accrued pension benefits	712	659
Changes to the pension plan (Note 1)	168	
Benefit payments, value transfers and refunds	(510)	(460)
Net experience gains and changes in actuarial assumptions	(3 138)	(679)
Balance at end of year	<u>10 208</u>	<u>12 607</u>

Significant actuarial assumptions (%)

Discount rate	7.5	5.5
Salary escalation rate ^a	2.9	3.3

a) This rate is a weighted average that takes salary increases into account as well as promotion opportunities while in service.

8. RELATED PARTY TRANSACTIONS

The pension fund's investments include nominal bonds issued by Hydro-Québec and by its shareholder, the Québec government. These securities represent 4.6% and 8.4% of net assets available for benefits as at December 31, 2008 (3.8% and 6.0% as at December 31, 2007). Also, plan administration costs amounting to \$6.6 million in 2008 (\$7.2 million in 2007) and investment management costs totalling \$5.2 million in 2008 (\$5.9 million in 2007) are attributable to services rendered by Hydro-Québec.

9. COMPARATIVE INFORMATION

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

HYDRO-QUÉBEC PENSION PLAN

AUDITORS' REPORT

To the Members of the Hydro-Québec Pension Plan

We have audited the statement of net assets available for benefits of the Hydro-Québec Pension Plan as at December 31, 2008, and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of Hydro-Québec's Management, Hydro-Québec acting as the Pension Fund's trustee. 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 Hydro-Québec's Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Hydro-Québec Pension Plan as at December 31, 2008, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Ernst & Young LLP
Chartered Accountants

Montréal, Canada, February 12, 2009

IMMOBILIÈRE SHQ
(R.S.Q., c. I-0.3)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
REVENUES		
Consideration receivable from organizations for use of capital assets (Note 14)	167 272	168 289
Interest income and other income (Note 14)	29 904	31 031
Gain on sale of capital assets	<u>84</u>	<u>7</u>
	<u>197 260</u>	<u>199 327</u>
EXPENSES		
Interest	131 885	138 630
Amortization	53 738	47 935
Unrealized decline in value on investments (Note 8)	2 043	825
Amount remitted to organizations for gain on sale of capital assets (Note 4)	113	8
Administrative expenses (Note 14)	<u>656</u>	<u>600</u>
	<u>188 435</u>	<u>187 998</u>
NET INCOME	8 825	11 329
OPENING RETAINED EARNINGS	<u>59 208</u>	<u>47 879</u>
CLOSING RETAINED EARNINGS	<u><u>68 033</u></u>	<u><u>59 208</u></u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ

BALANCE SHEET
as at December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Capital assets (Note 5)	1 624 821	1 590 437
Loans (Notes 6 and 14)	375 326	388 830
Short-term advances (Note 7)	5 914	
Investment (Note 8)	6 347	8 475
Accrued interest on loans (Note 14)	5 822	6 033
Accounts receivable (Note 14)	28 232	31 052
Cash and cash equivalents (Note 9)	<u>4 121</u>	<u>5 612</u>
	<u>2 050 583</u>	<u>2 030 439</u>
LIABILITIES		
Long-term debt (Note 10)	1 824 766	1 904 084
Short-term borrowings (Notes 11 and 14)	46 181	
Short-term borrowings for major improvements (Note 12)	48 074	
Deferred subsidies		
Canada Mortgage and Housing Corporation	4 785	4 852
Gouvernement du Québec	25	28
Housing authorities	6 924	6 960
Interest accrued on debt	38 201	41 665
Accounts payable (Note 14)	<u>64</u>	<u>112</u>
	<u>1 969 020</u>	<u>1 957 701</u>
SHAREHOLDER'S EQUITY		
Share capital (Note 13)	13 530	13 530
Retained earnings	<u>68 033</u>	<u>59 208</u>
	<u>81 563</u>	<u>72 738</u>
	<u>2 050 583</u>	<u>2 030 439</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Roger Dionne, Chairman
Christyne Tremblay, Vice-Chairman

IMMOBILIÈRE SHQ

STATEMENT OF CASH FLOWS
for the year ended December 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash inflows – organizations	170 396	169 345
Cash payments – Housing authorities contribution		(181)
Cash payments – administrative expenses	(705)	(602)
Cash payments – organizations	(113)	(8)
Interest received	29 707	31 177
Interest paid	<u>(135 350)</u>	<u>(139 909)</u>
	<u>63 935</u>	<u>59 822</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Encashment on loans	13 504	13 499
Short-term advances	(5 914)	
Proceeds on sale of capital assets	266	8
Acquisition of capital assets	<u>(88 304)</u>	<u>181</u>
	<u>(80 448)</u>	<u>13 688</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Long-term debt repayment	(79 318)	(70 451)
Short-term borrowings	46 181	
Short-term borrowings for major improvements	<u>48 074</u>	
	<u>14 937</u>	<u>(70 451)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1 576)	3 059
OPENING CASH AND CASH EQUIVALENTS	5 612	11 853
Long-term reclassification of asset-backed commercial papers (Note 8)		(9 300)
Adjustment of long-term reclassification of asset-backed commercial papers from the previous fiscal year	<u>85</u>	
CLOSING CASH AND CASH EQUIVALENTS (Note 9)	<u><u>4 121</u></u>	<u><u>5 612</u></u>

The notes are an integral part of these financial statements.

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS**

as at December 31, 2008

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The purpose of Immobilière SHQ, a legal entity with a partnership fund and an agent of the State established by the *Act respecting Immobilière SHQ* (R.S.Q., c. I-0.3), is:

- to acquire, with the related rights and obligations, residential buildings, notably those belonging to the Société d'habitation du Québec, and, for a consideration, to make these buildings available to housing offices or other non-profit organizations wishing to operate them;
- to acquire the rights and obligations resulting from loans awarded by the Société d'habitation du Québec to housing offices or other non-profit organizations.

Immobilière SHQ mandated the Société d'habitation du Québec, a legal entity established by a special statute (R.S.Q., c. S-8), to administer, for a consideration, its property and the resulting obligations and to manage the everyday affairs related to this property.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the fair value of financial instruments. The amounts shown and the information provided in the notes are based on Société d'habitation du Québec management's best estimates.

Capital assets

Capital assets are recorded at cost.

Capital assets are amortized using the sinking fund method (increasing allotment) and a rate of 7.5% so as to completely amortize the cost of buildings over 35 and 40 years.

Major improvements are amortized using the straight-line method and a period of 20 years.

Cash and cash equivalents

It is Immobilière SHQ's policy to present cash and highly liquid short-term investments that are easily convertible into a known amount of cash whose value should not change significantly under cash and cash equivalents.

Deferred subsidies

Deferred subsidies for buildings are transferred to operations under "Interest income and other income" using the compound interest amortization method (increasing endowment) at a rate of 7.5%, over a period of 35 or 40 years, based on the fixed assets they are related to.

Deferred subsidies for major improvements are transferred to operations under "Interest income and other income" using the same method and period as their amortization, that is, the straight-line method and a period of 20 years.

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Financial instruments

Initial measurement

Financial instruments are recognized at their fair value on the date of the transaction.

Category of financial instrument and subsequent measurement

Financial assets held for transaction purposes

The financial instruments classified in this category are posted at fair value every balance sheet date and any change in the fair value is reported under operations in the period in which these changes occur.

This category includes cash, cash equivalents and investments designated for transaction purposes.

Loans and accounts receivable and other financial liabilities

The financial instruments classified under these categories are recognized at cost after amortization using the effective interest rate method. Gains and losses are recognized under net earnings when the financial asset or liability is counted down or depreciates and by the amortization process.

Immobilier SHQ classified loans, short-term advances, interest on loans and accounts receivable in the category loans and accounts receivable. The long-term debt, short-term borrowings, short-term borrowings for major improvements, interest accrued on the debt and expenses payable are classified as other financial liabilities.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

On January 1, 2008, Immobilier SHQ adopted the new recommendations of the Canadian Institute of Chartered Accountants for three new sections: Section 1535, "Capital disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". Section 1535 seeks to inform users on the entity's capital and how it is managed, while sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements.

The adoption of these new standards did not affect Immobilier SHQ's performance since they govern disclosures only.

4. AMOUNT REMITTED TO ORGANIZATIONS FOR GAIN ON THE SALE OF CAPITAL ASSETS

As stipulated in the implementation agreements governing the social housing assistance program between the Société d'habitation du Québec and the Canada Mortgage and Housing Corporation, Immobilier SHQ remits the gains or proceeds from the sales of immovables related to this program to the partners, in proportion to their share in the program's budgetary expenses, via the organizations subsidized.

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

5. CAPITAL ASSETS

	2008			2007
	Cost	Accumulated depreciation	Net	Net
Land *	101 542		101 542	101 724
Buildings **	1 790 378	353 195	1 437 183	1 488 713
Major improvements	88 304	2 208	86 096	
	<u>1 980 224</u>	<u>355 403</u>	<u>1 624 821</u>	<u>1 590 437</u>

* Immobilière SHQ holds lands as a superfiary, of an unlimited duration, for an amount of \$33.7 million. Subsoil ownership of these lands belongs to the Ville de Montréal.

** Buildings with a book value of \$137.6 million at December 31, 2008 (2007: \$143.6 million) have been erected on property that Immobilière SHQ holds as an emphyteutic lessee. The emphyteuses expire between 2025 and 2042. The annual rents are paid by housing offices and are included in their operating deficit.

6. LOANS

	2008				2007
	Fixed interest rates maturing				Total
	from 2009 to 2019	from 2020 to 2024	from 2025 to 2030	Total	Total
Loans guaranteed by real estate mortgages, repayable in monthly or annual instalments at an interest rate of:					
6.875%	6 538	51 735		58 273	61 244
7.000% to 7.500%		47 581	14 053	61 634	63 762
7.625% to 7.875%	83	91 732	48 065	139 880	144 822
8.000% to 8.625%		30 921	73 031	103 952	106 876
10.500% to 15.125%	<u>1 368</u>		<u>182</u>	<u>1 550</u>	<u>1 665</u>
	<u>7 989</u>	<u>221 969</u>	<u>135 331</u>	<u>365 289</u>	<u>378 369</u>
Unsecured loans, repayable in monthly instalments at an interest rate of:					
5.050%		145		145	154
6.875%		7 244		7 244	7 612
8.000%			2 648	2 648	2 695
		<u>7 389</u>	<u>2 648</u>	<u>10 037</u>	<u>10 461</u>
	<u>7 989</u>	<u>229 358</u>	<u>137 979</u>	<u>375 326</u>	<u>388 830</u>

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

6. LOANS (cont'd)

Encashments receivable over the coming fiscal years on loans are:

2009	14 496
2010	15 628
2011	16 850
2012	18 168
2013	19 590
	<u>84 732</u>
2014 to 2018	122 357
2019 to 2023	128 495
2024 to 2028	38 154
2029 to 2030	1 588
	<u>375 326</u>
Total	

7. SHORT-TERM ADVANCES

Immobilière SHQ issued short-term advances to housing boards for capitalizable major improvements made during the fiscal year on buildings owned by the housing boards.

These short-term advances have no repayment terms and bear interest at rates varying from 1.718% to 2.950%.

8. INVESTMENTS**Third-party asset-backed commercial papers (ABCPs)**

Since August 13, 2007, Immobilière SHQ holds investments on the Canadian asset-backed commercial paper (ABCP) market not backed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee approved an agreement in principle to restructure the series linked to ABCPs issued by 20 trusts.

On April 25, 2008, ABCP note holders voted in favour of the restructuring plan (Plan), whose implementation was finalized on January 21, 2009.

In keeping with the Plan, the ABCPs in question were replaced by new, longer-term variable-rate notes designed to better correspond to the underlying assets' maturity dates. The Plan also provides, in certain cases, for regrouping certain assets and creating new margin funding facilities to support any security calls that might occur.

The ABCP series in question, underwritten in full or part by synthetic assets, were regrouped into the following master asset vehicles (I and II):

- Master Asset Vehicle I (MAV I) is a newly-created vehicle for investors who have chosen to commit their prorated share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle II (MAV II) is a newly-created vehicle for investors who have chosen to commit less than their prorated share (or no share) of a margin funding facility, in which case the remaining portion will be funded by third parties.

The MAV I and MAV II margin funding facilities are supplied by several lenders. These facilities are designed to reduce the risk that the new vehicles might not be able to face margin calls should future circumstances make them necessary. Further, a moratorium prohibits margin calls for an 18-month period.

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

8. INVESTMENTS (cont'd)**Third-part asset-backed commercial papers (ABCP) (cont'd)**

Regarding the contribution of assets underwritten by the MAV I and MAV II margin funding facility, investors received a combination of Class A-1, A-2, B and C notes maturing in July 2056. The Class A-1 and A-2 notes received a final credit rating of "A". Assets not eligible under MAV I and MAV II were separated and note holders holding ABCP series backed in part by ineligible assets received tracking notes for the ineligible assets, which reflect the return on the individual underlying assets.

A newly-created vehicle, siloing each series backed exclusively by traditional assets or 100% ineligible assets, was created under the name Master Asset Vehicle III (MAV III). Two main note classes were created under MAV III: traditional asset tracking notes and ineligible asset tracking notes. All notes are linked to net return and the maturity dates of their respective underlying assets.

The notes incorporate a subordination sequence: Class C notes are subordinate to Class B notes, Class B notes are to Class A-2 notes and Class A-2 notes to Class A-1 notes. This cascade structure is designed to ensure that subordinate tranches absorb the initial losses so as to immunize the higher tranches. Due to the cascade structure, Class C and B notes absorb the largest declines in value. In December 2008, DBRS issued "A" rating to Class A-1 and A-2 notes but did not provide a rating for Class B and C notes.

Since there is no active market for the ABCP shares included in the Plan, in keeping with CICA guidelines, management determined fair values based on an analysis of actualized cash flows. Following the evaluation, an unrealized decline in value of \$2.0 million was posted for the fiscal year ended December 31, 2008 (2007: \$0.8 million). Management considers the estimate of the fair values reported reasonable and the most appropriate figure at December 31, 2008. Nevertheless, these fair values are established based on the information available at that date, management's assessment of the financial market situation and assumptions and probabilities. Consequently, the fair value disclosed may vary significantly in subsequent periods. Potential changes that would significantly affect ABCPs' future value include: (1) changes in the value of the underlying assets, (2) changes in the ABCP liquidity market, (3) severe, prolonged impacts of the economic slowdown.

At December 31, 2008, prior to restructuring, Immobilière SHQ held third-party ABCPs whose face value was \$9.2 million and whose fair value was \$6.3 million.

On January 21, 2009, the ABCPs held by Immobilière SHQ were replaced by the following:

	<u>Face value</u>
ABCPs included in the restructuring plan:	
MAV II	
Class A-1	3 712
Class A-2	352
Class B	64
Class C	128
MAV III	
Tracking notes for traditional assets	4 380
Tracking notes for ineligible assets	<u>579</u>
	<u>9 215</u>

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

8. INVESTMENTS (cont'd)**Third-part asset-backed commercial papers (ABCP) (cont'd)**

Class A-1, A-2 and B notes bear interest at bank acceptance rates minus 0.50%. Interest on Class B notes is cumulative and payable only once the capital and interest on Class A-1 and A-2 notes has been paid in full. Class C notes bear interest at bank acceptance rates plus 20%. This interest is cumulative and payable only once the capital and interest on Class A-1, A-2 and B notes has been paid in full. Ineligible asset notes bear interest at a rate that is adjusted based on the underlying assets' return.

Tracking notes for traditional and ineligible assets bear interest at a rate that is adjusted based on the underlying assets' yield.

Interest arrears

On January 21 and May 14, 2009, Immobilière SHQ received interest minus restructuring costs for the period running from the purchase date to January 21, 2009. Accrued interest, totalling \$0.2 million at December 31, 2008, was reported in this fiscal year.

9. CASH AND CASH EQUIVALENTS

	2008	2007
Cash on hand	4 121	112
Term deposits, at cost, 4.65% and 4.74%		5 500
	<u>4 121</u>	<u>5 612</u>

10. LONG-TERM DEBT

	2008			2007
	Fixed interest rates maturing			
	from 2009 to 2017	from 2019 to 2032	Total	Total
Canada Mortgage and Housing Corporation				
Bonds				
repayable in monthly instalments 3.01% to 6.240%	*782 328		782 328	707 927
repayable in annual or semi-annual instalments and redeemable in advance 6.875% to 11%		318 445	318 445	328 952
repayable in annual instalments 5.944%	778	283 125	283 903	290 975
Loan guaranteed by real estate mortgage repayable in monthly instalments 7.875%		504	504	521
Amounts carried forward	<u>783 106</u>	<u>602 074</u>	<u>1 385 180</u>	<u>1 328 375</u>

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

10. LONG-TERM DEBT (cont'd)

	2008			2007
	Fixed interest rates maturing			
	from 2009 to 2017	from 2019 to 2032	Total	Total
Amounts brought forward	708 811	619 564	1 328 375	1 380 805
Other				
Bonds repayable in annual instalments and insured by the Canada Mortgage and Housing Corporation at interest rate of: 8.950% to 11.375%	*439 440		439 440	575 555
Term loan repayable in monthly instalments 5.050%	*146		146	154
	439 586		439 586	575 709
	1 222 692	602 074	1 824 766	1 904 084

* At term, the balance owing on these debts will be refinanced.

Assuming that refinancing occurs at term under the same conditions as those prevailing on December 31, 2008, the amount of the capital instalments payable in the coming fiscal years on the long-term debt are as follows:

2009	82 696
2010	87 682
2011	92 991
2012	98 498
2013	104 529
	<u>466 396</u>
2014 to 2018	530 107
2019 to 2023	499 114
2024 to 2028	294 639
2029 to 2032	34 510
	<u>1 824 766</u>
Total	

11. SHORT-TERM BORROWING

Immobilier SHQ is authorized by its Board of Directors to contract short-term borrowings from financial institutions and the Gouvernement du Québec's Financing Fund, a jointly-controlled entity, to a maximum of \$500 million.

Any borrowing contracted under this authorization bears interest at the fixed rate negotiated at the time of borrowing. The rates at December 31, 2008 were 1.718% and de 2.150%.

12. SHORT-TERM BORROWINGS FOR MAJOR IMPROVEMENTS

These borrowings cover short-term financing paid by housing boards using amounts received from the Société d'habitation du Québec for capitalizable major improvements to buildings owned by Immobilier SHQ.

These borrowings bear interest at rates varying 1.718% to 2.950%.

IMMOBILIÈRE SHQ

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

13. CAPITAL STOCK

Immobilière SHQ shares are held by the Minister of Finance.

	<u>2008</u>	<u>2007</u>
Authorized 150 000 shares with a par value of \$100 each		
Issued and paid up 135 300 shares	<u>13 530</u>	<u>13 530</u>

14. RELATED PARTY TRANSACTIONS

During the fiscal year, Immobilière SHQ carried out transactions with entities controlled with or related through members of management of the Société d'habitation du Québec. The amount of these transactions and the resulting balances in the financial statements at year-end are:

	<u>2008</u>	<u>2007</u>
Société d'habitation du Québec		
Administrative expenses	642	564
Société de gestion immobilière – SHQ		
Consideration payable by organizations for use of capital assets	2 376	2 394
Accounts receivable	264	322
Corporation d'hébergement du Québec		
Interest income and other income	2 436	2 513
Loans	31 415	32 488
Interest accrued on loans	1 176	1 215
Health and social services network organizations		
Interest income and other income	6 130	6 349
Loans	78 983	82 005
Accrued interest on loans	2 952	3 063
Education network organizations		
Consideration payable by organizations for using buildings	718	727
Interest income and other income	901	937
Loans	12 085	12 604
Accrued interest on loans	74	77
Receivables	358	362
Financing Fund		
Short-term borrowings	46 181	
Accrued interest on debt	71	
Capitalized interest on capital assets	155	
Capitalized interest on short-term advances	23	

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Immobilière SHQ is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. Immobilière SHQ did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

IMMOBILIÈRE SHQ**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at December 31, 2008

(in thousands of dollars)

15. FINANCIAL INSTRUMENTS**Interest rate risk**

Loans, short-term advances, long-term debt, short-term borrowings, and short-term borrowings for major improvements bear interest at fixed rates. Further, interest rates and maturity dates for loans and the long-term debt are virtually identical. The same applies to short-term advances and short-term loans.

The interest rate risk for the long-term debt for capital assets owned by Immobilière SHQ is also minimal since the consideration payable by organizations for the use of these capital assets equals the amount of capital, interest, costs and related amounts for all long-term debts and short-term borrowings contracted to finance their acquisition, construction or renovation. Consequently, a change in interest rates should not significantly affect the Immobilière SHQ's performance.

Credit risk

The financial assets' book value represents Immobilière SHQ's maximum exposure to credit risk, which is limited for to the large number of organizations composing its clientele. Further, most of these organizations receive subsidies payable by the Gouvernement du Québec.

No loan or receivable was outstanding at December 31, 2008.

Liquidity risk

Immobilière SHQ considers that it holds sufficient financial assets, credit facilities and cash receipts to have the funds necessary to meet its current and long-term financial requirements.

Fair value of financial instruments*Loans*

At December 31, 2008, the fair value of Immobilière SHQ's loans of \$375 million was \$406 million given the actualization of cash flows at the market rate for comparable securities at similar fixed rates.

Long-term debt

At December 31, 2008, the fair value of Immobilière SHQ's \$1 825 million long-term debt was \$1 947 million, given the discounting of cash flows at market rates for comparable securities at similar fixed rates.

Other assets and liabilities

The fair value of cash, term deposits, short-term advances, accounts receivable, interest accrued on borrowing and debt, short-term borrowings, short-term borrowings for major improvements and accounts payable equals their book value, given that they mature in the short term. The fair value of these investments is disclosed in Note 8.

IMMOBILIÈRE SHQ**MANAGEMENT'S REPORT**

As per the management agreement between the Société d'habitation du Québec and Immobilière SHQ, the financial statements of Immobilière SHQ were prepared by management, which is responsible for providing complete, accurate data, notably significant judgements and estimates, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the balance sheet and the financial statements.

To fulfil its mandate, Société d'habitation du Québec maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management performs periodic audits to ensure that internal controls are applied properly, uniformly and on an ongoing basis.

Immobilière SHQ recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The Board of Directors must oversee the manner in which the Société d'habitation du Québec performs its financial reporting duties. It meets with the latter and the Auditor General of Québec, examines the financial statements and approves them.

The Auditor General of Québec has audited Immobilière SHQ's financial statements for the fiscal year ended December 31, 2008 in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

I am in a position to confirm that the Société d'habitation du Québec has properly met all of the obligations and commitments stipulated in the management contract.

Robert Madore
President and Director General,
Société d'habitation du Québec

Québec, September 2, 2009

IMMOBILIÈRE SHQ

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of Immobilière SHQ as at December 31, 2008 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Immobilière SHQ. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Immobilière SHQ's as at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, September 2, 2009

INSTITUT DE LA STATISTIQUE DU QUÉBEC
(R.S.Q., c. I-13.011)

STATEMENT OF INCOME AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Gouvernement du Québec operating subsidy	\$14 322 500	\$14 322 500
Services rendered	14 135 724	11 695 830
Other revenue	<u>280 211</u>	<u>298 547</u>
	<u>28 738 435</u>	<u>26 316 877</u>
EXPENSES		
Salaries and fringe benefits	20 227 181	19 064 646
Professional fees	1 010 981	1 179 795
Rent	1 836 898	1 628 112
Computer services and supplies	465 949	479 086
Purchase of statistical data	713 258	440 551
Communications	516 126	446 274
Travel and accommodation expenses	256 983	274 646
Office expenses	161 794	137 029
Printing costs	296 766	221 790
Training costs	190 845	140 812
Amortization of tangible capital assets	361 258	335 945
Amortization of intangible assets	590 101	789 832
Loss on the disposal of tangible capital assets	2 487	
Striking off of intangible assets (Note 6)	276 153	
Other expenses	<u>133 378</u>	<u>96 209</u>
	<u>27 040 158</u>	<u>25 234 727</u>
EXCESS OF REVENUES OVER EXPENSES	1 698 277	1 082 150
OPENING CUMULATED SURPLUS	<u>1 108 071</u>	<u>25 921</u>
CLOSING CUMULATED SURPLUS	<u>\$2 806 348</u>	<u>\$1 108 071</u>

The notes are an integral part of these financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$7 645 810	\$3 315 170
Short-term investments (Note 4)	300 030	3 053 913
Accounts receivable		
Clients	1 495 436	4 301 331
Other accounts receivable	1 926	10 409
Work in progress	1 456 679	1 066 579
Prepaid expenses	303 616	193 039
	<u>11 203 497</u>	<u>11 940 441</u>
Tangible capital assets (Note 5)	998 637	870 804
Intangible assets (Note 6)	<u>105 538</u>	<u>900 478</u>
	<u><u>\$12 307 672</u></u>	<u><u>\$13 711 723</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$1 437 632	\$1 079 988
Deferred revenue	2 598 725	5 549 422
Vacation pay owing to employees	1 692 832	1 727 028
	<u>5 729 189</u>	<u>8 356 438</u>
Deferred subsidy		295 055
Provision for sick leave (Note 8)	<u>3 772 135</u>	<u>3 952 159</u>
	9 501 324	12 603 652
CUMULATED SURPLUS	<u>2 806 348</u>	<u>1 108 071</u>
	<u><u>\$12 307 672</u></u>	<u><u>\$13 711 723</u></u>

The notes are an integral part of these financial statements.

Stéphane Mercier
Director General,
Institut de la statistique du Québec

INSTITUT DE LA STATISTIQUE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$1 698 277	\$1 082 150
Adjustments for:		
Amortization of tangible capital assets	361 258	335 945
Amortization of intangible assets	590 101	789 832
Striking off of intangible assets	276 153	
Loss on the disposal of tangible capital assets	2 487	
Interest income from uncashed investments		(53 754)
Decrease in provision for sick leave	(180 024)	(16 600)
	<u>2 748 252</u>	<u>2 137 573</u>
Change in non-cash elements related to operations		
Decrease (increase) in accounts receivable	2 814 378	(776 606)
(Increase) decrease in work in progress	(390 100)	559 297
(Increase) decrease in prepaid expenses	(110 577)	205 775
Decrease in amounts receivable from the Gouvernement du Québec		327 072
Increase in accounts payable and accrued liabilities	17 321	160 930
(Decrease) increase in deferred revenue	(2 950 697)	557 895
Decrease in vacation pay owing to employees	(34 196)	(35 606)
Decrease in deferred subsidy	(295 055)	(464 033)
	<u>1 799 326</u>	<u>2 672 297</u>
INVESTMENT ACTIVITIES		
Sale of investments	24 500 332	9 451 505
Acquisitions of investments	(21 446 420)	(8 406 935)
Acquisitions of tangible capital assets	(139 367)	(412 507)
Acquisitions intangible assets	(83 201)	(385 595)
	<u>2 831 344</u>	<u>246 468</u>
Cash flows for investment activities		
	<u>2 831 344</u>	<u>246 468</u>
CHANGE IN CASH AND CASH EQUIVALENTS	4 630 670	2 918 765
OPENING CASH AND CASH EQUIVALENTS	3 315 170	396 405
CLOSING CASH AND CASH EQUIVALENTS (Note 10)	<u>\$7 945 840</u>	<u>\$3 315 170</u>

The notes are an integral part of these financial statements.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS for the year ended March 31, 2009

1. CONSTITUTION AND PURPOSE

The Institut de la statistique du Québec was established by the *Act respecting the Institut de la statistique du Québec* (R.S.Q., c. I-13.011) to supply reliable, objective statistical information on the situation in Québec with regard to all aspects of Québec society for which such information is relevant.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

It is the Institut's policy to present petty cash, bank balances minus outstanding cheques, where applicable as cash and cash equivalents, and investments likely to be realized fairly quickly whose maturity date is three months or less from the acquisition date.

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main items subject to an estimate are the useful life of tangible capital assets and intangible assets, vacation pay due to employees and the provision for sick leave.

Revenue reporting

Revenues from service delivery are posted using the proportional performance method. Work in progress includes fees and disbursements not yet invoiced to clients at net realization value. Deferred revenues comprise work invoiced in advance.

Tangible capital assets

Tangible capital assets are recorded at acquisition cost and amortized over their service lives using the straight-line method and the following rates:

	Rate
Leasehold improvements	20%
Furniture	20%
Equipment	33 1/3%
Computer equipment	25%
Telephone system	33 1/3%

Intangible assets

Intangible assets, comprising software, computer systems and collection tool development, are recorded at cost and amortized over their service life using the straight-line method. They undergo a depreciation test when changes in the situation indicate that it may not be possible to recover their book value.

	Rate
Computer development	20%
Software	25%
Collection tool development	33 1/3%

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations stemming from sick leave accumulated by the employees are measured on an actuarial basis by means of a simplified estimating method that relies on the most probable assumptions determined by the government. These assumptions are re-evaluated each year. The corresponding liabilities and expenses that result therefrom are accounted for on the basis of the method of acquisition of these fringe benefits by the employees, i.e. according to the accumulation and use by the employees of sick days.

Subsidy reporting

The Gouvernement du Québec subsidy for the acquisition of capital assets is reported as a deferred subsidy and posted to operations using the same method and amortization rates as subsidized intangible assets.

Financial instruments

Initial measurement

Financial instruments are reported at their fair value on the date of the transaction.

Financial instrument categories and subsequent measurement

Assets held for transaction purposes

The assets and liabilities held for transaction purposes are assets that the Institut acquired primarily for resale in the short term to make a profit or assets that belong to a portfolio of identified financial instruments managed collectively and showing a recent short-term profit profile. This category also includes assets that do not meet the above-mentioned criteria, but that the Institut has chosen to irrevocably designate as held for transaction purposes, and derivative financial assets.

Assets held for transaction purposes are measured at their fair value and the gains or losses resulting from their re-measurement at fair value are reported under net results.

The Institut has classified cash and short-term investments as assets held for transaction purposes.

Loans and accounts receivable

Loans and accounts receivable do not include debt securities. Subsequent measurement of loans and accounts receivable is at amortized cost using the effective interest-rate method.

The Institut has classified accounts receivable in this category.

Other liabilities

Other liabilities include all non-derivative financial liabilities not classified in the category "held for transaction purposes." These liabilities are subsequently measured at amortized cost using the effective interest-rate method.

The Institut has classified accounts payable and accrued liabilities in this category.

INSTITUT DE LA STATISTIQUE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 for the year ended March 31, 2009

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)
Financial instruments (cont'd)
Comprehensive income

In the fiscal year ended March 31, 2009, the Institut did not carry out any operations affecting comprehensive income and no opening or closing cumulated comprehensive income balance has been presented.

3. ADOPTION OF NEW GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

On April 1, 2008, the Institut adopted three new accounting standards of the Canadian Institute of Chartered Accountants (CICA): Chapter 1535, "Capital Disclosures," Chapter 3862, "Financial Instruments – Disclosure," and Chapter 3863, "Financial Instruments – Presentation." The adoption of these new standards has not led to changes in the recording of the Institut's operations but has resulted in the addition of notes to the financial statements.

Chapter 1535 establishes standards governing the entity's capital disclosures and the manner in which the capital is managed. These standards are intended to enable users of the financial statements to evaluate the capital management objectives, policies and procedures that the entity has adopted. The information to be provided by the Institut is presented in Note 9, "Information on capital."

Chapters 3862 and 3863 replace chapter 3861, "Financial Instruments – Disclosure and Presentation." Disclosure has been revised and broadened. The requirements pertaining to presentation have remained the same. These new chapters bolster the importance of providing information on the nature and scope of the risks inherent in financial instruments and the manner in which management manages such risks. The additional information is presented in Note 11, "Financial instruments."

During the fiscal year, the Institut also applied CICA's new recommendations following the publication of Chapter 3064, "Goodwill and Intangible Assets," which replaces Chapters 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs." This new chapter establishes the recognition, measurement and disclosure standards applicable to goodwill and intangible assets, including internally generated intangible assets. The adoption of these new standards has not led to changes in the recording of the Institut's operations.

4. SHORT-TERM INVESTMENTS

The short-term investments comprise Canadian money market securities.

5. TANGIBLE CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Leasehold improvements	\$857 158	\$591 073	\$266 085	\$315 971
Furniture	425 304	351 570	73 734	2 797
Equipment	46 279	40 554	5 725	
Computer equipment	1 847 267	1 194 174	653 093	552 036
Telephone system	236 822	236 822		
	<u>\$3 412 830</u>	<u>\$2 414 193</u>	<u>\$998 637</u>	<u>\$870 804</u>

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**6. INTANGIBLE ASSETS**

	2009		2008
	Cost	Accumulated depreciation	Net
Computer development	\$5 020 163	\$5 020 163	\$501 853
Software	228 643	123 105	47 663
Collection tool development			350 962
	<u>\$5 248 806</u>	<u>\$5 143 268</u>	<u>\$900 478</u>

During the fiscal year, the project in respect of which collection tools were developed was abandoned. The Institut therefore struck off this intangible asset and a loss on the striking off of intangible assets of \$276 153 was recognized in the income statement as at March 31, 2009.

7. AUTHORIZED CREDIT MARGIN

The Institut has rotating credit of \$2 000 000 with the Consolidated Revenue Fund. Advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2013. At March 31, 2009, no advance had been contracted.

8. FUTURE FRINGE BENEFITS**Pension plans**

Institut staff participates in the Government and Public Employees Retirement Plan (RREGOP), the Retirement Plan for Senior Officials (RPSO), Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2009, the Institut's RREGOP, PPMP and RPSO contribution rates remained unchanged at 8.19%, 10.54% and 10.54%, respectively, of the total payroll.

The Institut's contributions charged to the year-end statement totalled \$1 021 537 (2008: \$874 727). Its liability towards the Government plans is restricted to its employer contributions.

Provision for sick leave

The Institut has modified during the fiscal year its method of measuring obligations in respect of sick leave credits. These obligations will from now on be measured according to an actuarial method that takes in account the breakdown of accrued benefits. This change in the accounting estimate reduced by \$312 444 the value of the obligation as at March 31, 2009. The impact of this change has been recorded prospectively in the income statement for the fiscal year.

	2009	2008
Opening balance	\$3 952 159	\$3 968 759
Annual expenses	926 488	956 154
Benefits paid during the year	<u>(1 106 512)</u>	<u>(972 754)</u>
Closing balance	<u>\$3 772 135</u>	<u>\$3 952 159</u>

The Institut has a sick leave accumulation program, which engenders long-term obligations whose costs the Institut fully assumes.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**8. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave (cont'd)**

The sick leave accumulation program allows employees to accumulate the unused sick leave days to which they are entitled each year and to cash out the leave at 50% in the event of termination of employment, retirement or death. The employees may also choose to use the sick leave accumulated as fully paid leave days in the event of early retirement. The program is not now subject to capitalization to cover payment.

The obligations of the sick leave accumulation program are increasing as the employees render services to the Institut. The value of this obligation is established by means of a method that breaks down the cost of this program over the duration of the active careers of the employees.

The sick leave accumulation program has been updated, based, in particular, on the following long-term estimates and economic assumptions as at March 31, 2009:

	<u>PPMP, RPSO</u>	<u>RREGOP</u>
Capitalization rate	4.15%	4.25%
Average remaining service period of active employees	9 years	17 years

Provision for leave

No capitalization calculation concerning the provision for leave is deemed to be necessary, since the Institut believes that the accumulated leave will be taken in the subsequent fiscal year.

9. INFORMATION ON CAPITAL

The Institut defines its capital as the cumulated surplus.

The Institut is not subject to any requirement in respect of capital by an external source.

The Institut manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

10. CASH FLOWS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents		
Cash on hand	\$7 645 810	\$3 315 170
Short-term investments	<u>300 030</u>	
	<u>\$7 945 840</u>	<u>\$3 315 170</u>

The interest collected on cash equivalents stands at \$1 851.

11. FINANCIAL INSTRUMENTS**Fair values**

The fair values of assets held for transaction purposes, loans and accounts receivable, and other liabilities roughly correspond to their book value because of their short-term maturity dates.

INSTITUT DE LA STATISTIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**11. FINANCIAL INSTRUMENTS (cont'd)****Credit risk**

The book value of financial assets represents the entity's maximum exposure to credit risk.

An analysis of the age of financial assets breaks down as follows:

Age of accounts receivable	2009			2008		
	Gross value	Loss of value	Gross value	Gross value	Loss of value	Gross value
Current	\$1 172 103		\$1 172 103	\$4 082 006		\$4 082 006
0 to 30 days	136 586		136 586	171 803		171 803
31 to 60 days	60 818		60 818	15 020		15 020
61 to 90 days	1 604		1 604	25 667		25 667
90 days and more	183 077	\$58 752	124 325	6 835		6 835
	<u>\$1 554 188</u>	<u>\$58 752</u>	<u>\$1 495 436</u>	<u>\$4 301 331</u>		<u>\$4 301 331</u>

The change in the provision for uncollectible accounts breaks down as follows:

	2009	2008
Opening balance		
Loss of value recorded	\$58 752	
Reversal of a provision		
Closing balance	<u>\$58 752</u>	

In light of historic accounts receivable default rates, the Institut is of the opinion that it is not necessary to record a loss of value in respect of current accounts receivable and those overdue for up to 90 days. Moreover, 75% of the total gross value concerns entities in the government's reporting environment in respect of which there exists a very good credit history.

12. COMMITMENTS

Under a partnership agreement for funding the longitudinal study of Québec children's development (ELDEQ), the Institut de la Statistique du Québec commits to making a total initial financial contribution of \$2 400 000 beginning in 2004, i.e. \$300 000 annually until April 2011. The balance of this commitment as at March 31, 2009 was \$900 000.

Under a partnership agreement on operation of the Observatoire de la culture et des communications du Québec (OCCQ), the Institut de la Statistique du Québec commits to making a total initial financial contribution of \$2 368 527 over 3 years, i.e. \$789 509 annually until April 2011. The balance of this commitment as at March 31, 2009 was \$2 368 527.

INSTITUT DE LA STATISTIQUE DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**13. RELATED PARTY TRANSACTIONS**

Transactions with jointly-controlled entities and amounts in respect of the related parties included in the items of the balance sheet break down as follows:

	2009	2008
Services rendered	\$12 792 742	\$8 820 859
Operating expenses	2 624 730	2 127 120
Accounts receivable	1 127 798	3 957 719
Work in progress	1 204 478	713 362
Prepaid expenses	189 160	25 618
Accounts payable and accrued liabilities	119 887	198 781
Deferred revenue	2 532 855	5 403 867

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Institut did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

INSTITUT DE LA STATISTIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de la statistique du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Institut de la statistique du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Institut's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Stéphane Mercier
Director General
Institut de la statistique du Québec

Québec, May 22, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de la statistique du Québec as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institut as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 22, 2009

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
(R.S.Q., c. I-13.02)

STATEMENT OF OPERATIONS
for the year ended June 30, 2008

	2008	2007
REVENUES		
Gouvernement du Québec subsidy (Note 5)	\$24 854 427	\$24 210 974
Retraining, vocational upgrading and customized training	801 262	846 409
Regular instruction	549 334	564 740
Food services	2 081 580	2 185 379
Lodging	1 273 934	1 155 811
Interest on investments	401 443	373 089
Professional services	170 488	801 383
Other revenues	870 179	844 447
	<u>31 002 647</u>	<u>30 982 232</u>
EXPENSES		
Salaries and fringe benefits	15 309 543	15 807 536
Education and administrative supplies	2 486 072	2 783 458
Maintenance, repairs and public services	1 417 132	1 582 325
Ancillary services	1 758 834	1 688 501
Property and other taxes	1 427 518	1 403 546
Instructors, lecturers and student assistance	509 030	676 073
Communications and travelling	368 504	583 300
Loss on write-off of capital assets	121 263	10 957
Other administrative expenses	459 984	448 736
Interest on the long-term debt	2 048 734	1 987 563
Other financial expenses	65 457	63 470
Amortization of capital assets	3 946 197	3 948 634
	<u>29 918 268</u>	<u>30 984 099</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$1 084 379</u>	<u>\$(1 867)</u>

The notes are an integral part of these financial statements.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

CUMULATED SURPLUS
for the year ended June 30, 2008

	Investment in capital assets	Allocated	Not allocated	2008	2007
OPENING CUMULATED SURPLUS	\$1 341 544	\$231 346	\$622 972	\$2 195 862	\$2 197 729
Excess (deficiency) of revenues over expenses	(367 880)		1 452 259	1 084 379	(1 867)
Investment in capital assets	152 093		(152 093)		
Internal restriction (Note 6)		1 248 424	(1 248 424)		
Cumulated gains posted directly to the opening cumulated excess			8 884	8 884	
Change in non-realized gains over investments available for sale			49 729	49 729	
CLOSING CUMULATED SURPLUS	<u>\$1 125 757</u>	<u>\$1 479 770</u>	<u>\$733 327</u>	<u>\$3 338 854</u>	<u>\$2 195 862</u>

The notes are an integral part of these financial statements.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

BALANCE SHEET
as at June 30, 2008

	2008	2007
ASSETS		
Current assets		
Cash on hand	\$3 196 673	\$10 101 837
Investments available for sale (Note 7)	9 180 142	200 800
Accounts receivable and accrued interest (Note 8)	575 453	1 083 771
Inventory	187 417	206 877
Prepaid expenses	833 314	988 598
Gouvernement du Québec subsidy receivable	1 279 795	1 065 941
	<u>15 252 794</u>	<u>13 647 824</u>
Gouvernement du Québec subsidy receivable	37 540 758	38 251 262
Investments, available for sale (Note 7)	1 669 047	1 322 898
Capital assets (Note 9)	<u>35 137 179</u>	<u>38 549 466</u>
	<u>\$89 599 778</u>	<u>\$91 771 450</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$4 079 026	\$3 425 967
Prepaid subsidies	7 685 041	7 530 969
Portion of the long-term debt maturing in next fiscal year (Note 12)	961 114	881 685
	<u>12 725 181</u>	<u>11 838 621</u>
Deferred subsidies for capital assets (Note 10)	32 976 922	36 173 422
Provision for sick leave (Note 11)	1 582 446	1 626 056
Long-term debt (Note 12)	<u>37 290 148</u>	<u>38 251 262</u>
	<u>84 574 697</u>	<u>87 889 361</u>
EQUITY		
Gouvernement du Québec contribution	1 686 227	1 686 227
Cumulated excess invested in capital assets	1 125 757	1 341 544
Cumulated appropriated surplus (Note 6)	1 479 770	231 346
Cumulated unappropriated surplus	733 327	622 972
	<u>5 025 081</u>	<u>3 882 089</u>
	<u>\$89 599 778</u>	<u>\$91 771 450</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Robert Gagnon, President
Claude Poisson, Vice-President

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
STATEMENT OF CASH FLOWS
 for the year ended June 30, 2008

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$1 084 379	\$(1 867)
Adjustments for:		
Loss on the write-off of capital assets	121 263	10 957
Amortization of capital assets	3 946 197	3 948 634
Amortization of deferred subsidies for capital assets	(3 578 317)	(3 564 328)
Amortization of discounts (premiums) on purchase of investments	(240)	(240)
	<u>1 573 522</u>	<u>393 156</u>
Change in non-cash items related to operations	<u>2 325 050</u>	<u>(181 772)</u>
Cash flows related to operating activities	<u>3 898 572</u>	<u>211 384</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(655 173)	(2 895 624)
Acquisition of long-term investments	(503 073)	
Sale of long-term investments		77 059
Reimbursement of loan to ITHQ Fondation		25 000
Cash flows related to investment activities	<u>(1 158 246)</u>	<u>(2 793 565)</u>
FINANCING ACTIVITIES		
Long-term debt transfer		3 100 000
Long-term debt repayment	(881 685)	(792 597)
Cash flows related to financing activities	<u>(881 685)</u>	<u>2 307 403</u>
CHANGE IN CASH AND CASH EQUIVALENTS *	<u>1 858 641</u>	<u>(274 778)</u>
OPENING CASH AND CASH EQUIVALENTS	10 302 637	10 577 415
Short-term transfer of an investment	195 652	
Change in non-realized gains on investments available for short-term sale	<u>19 885</u>	
	<u>10 518 174</u>	<u>10 577 415</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$12 376 815</u></u>	<u><u>\$10 302 637</u></u>
Interest paid during the year	<u><u>\$2 084 187</u></u>	<u><u>\$1 947 752</u></u>

* Cash and cash equivalents comprise cash and investments available for short-term sale.

The notes are an integral part of these financial statements.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2008

1. CONSTITUTION AND PURPOSE

The Institut de tourisme et d'hôtellerie du Québec is a corporation established under a special act (R.S.Q., c. I-13.02) to provide vocational training in the fields of hotel management, restaurant services and tourism, and conduct research, supply technical assistance, produce information and provide services in those fields.

Sums received by the Institut must be used to discharge its obligations and, at the Government's request, the balance must be paid into the Consolidated Revenue Fund.

Under its incorporating legislation, the Institut is an agent of the Government and, as such, does not pay income tax.

2. ACCOUNTING POLICIES

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is calculated in accordance with the first in, first out (FIFO) method.

Capital assets

Capital assets, including projects under way, are recorded at cost and amortized over their estimated service life using the straight-line method at the following annual rates:

Capital assets

Building	4%
Permanent leasehold improvements	10%
Kitchen equipment and technical material	10%
Computer equipment	20%
Rolling stock	25%

Intangible assets

Software	20%

Income reporting

Subsidies

Subsidies receivable for capital assets are recorded in the fiscal year in which the Institut obtained the funding creating the entitlement to these subsidies or during which the work was done.

Subsidies for the acquisition of amortizable capital assets are posted to revenues using the same method and rates as those used to amortize the capital assets to which they were related.

Operating subsidies are posted to revenues when they are received or receivable.

Service delivery and sales

Service delivery and sales income is reported when the following conditions are met:

- There is convincing proof that an agreement exists;
- Delivery has occurred or services have been dispensed;
- The selling price has been or can be determined;
- Recovery is reasonably certain.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

2. ACCOUNTING POLICIES (cont'd)
Use of estimates

Producing financial statements that comply with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the figures reported as assets and liabilities the date of the financial statements and revenues and expenses recorded during the fiscal year.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is the Institut's policy to present bank balances and investments available for short-term sale that are readily convertible as a known cash amount whose value does not risk changing significantly.

Financial instruments – Accounting and evaluation

The Institut has chosen to use the fair value method to account for investments and to designate them as assets available for sale. Assets and liabilities are initially accounted for at fair value, then evaluated by category:

Assets/Liabilities	Categories	Subsequent evaluation*
Cash on hand	Financial assets held for transaction purposes	Fair value
Investments	Financial assets available for sale	Fair value
Accounts receivable and accrued interest	Loans and accounts receivable	Cost
Accounts payable and accrued liabilities	Other financial liabilities	Cost
Long-term debt	Other financial liabilities	Cost

* Investments are evaluated at fair market value obtained from a certified broker. The cost is determined using the average amortized cost method according to the effective interest rate method, as the case may be.

Management has adopted control and management policies and procedures that ensure the management of the risk inherent in financial instruments and minimize its potential impact.

3. MODIFICATION OF ACCOUNTING CONVENTIONS – FINANCIAL INSTRUMENTS

During the fiscal year, the Institut applied CICA's new recommendations concerning the recognition, management and presentation of financial instruments following the publication of Chapters 3855, "Financial Instruments – Recognition and Management," and 3861, "Financial Instruments – Disclosure and Presentation" of the CICA accounting handbook.

For the purposes of the application of Chapter 3855, the classifications adopted by the Institut are disclosed in Note 2. Financial instruments were previously recognized at cost.

The adjustments, in the amount of \$8 884, resulting from the application of the new chapters are presented as cumulated gains posted directly to the statement of the opening cumulated excess. The comparative financial statements were not subject to adjustment.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

4. FUTURE MODIFICATIONS TO THE ACCOUNTING CONVENTIONS

In the next fiscal year, the Institut will apply the new recommendations of the Canadian Institute of Chartered Accountants concerning the following new chapters: 3031, "Inventories, 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation."

Chapters 3862 and 3863 seek to inform users to enable them to evaluate the importance of financial instruments from the standpoint of the entity's financial position and financial performance and to evaluate the nature and scope of the risks stemming from the financial instruments to which the entity is exposed and the manner in which it manages such risks. Chapters 3862 and 3863 replace chapter 3861 of the handbook, "Financial Instruments – Disclosure and Presentation." These chapters modify and broaden the requirements pertaining to disclosure but maintain the same requirements as regards presentation.

Chapter 3031 prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent accounting in expenses, including any depreciation up to the net realizable value.

Moreover, CICA has also published Chapter 3064, "Goodwill and Intangible Assets" that replaces Chapters 3062 – "Goodwill and Other Intangible Assets," and 3450, "Research and Development Costs." This new chapter establishes the accounting, evaluation and disclosure standards applicable to goodwill and intangible assets, including internally generated intangible assets. This chapter will apply to the financial statements for fiscal years opened starting October 1, 2008.

Chapters 3862 and 3863 pertain specifically to disclosure and will thus not have any impact on the Institut's results. As for Chapters 3031 and 3064, management is of the opinion that they will not have significant impact on the financial statements from the standpoint of the application of these new standards.

5. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2008	2007
Operations	\$19 231 328	\$18 130 838
Pay equity		545 100
Interest on the long-term debt	2 048 734	1 987 563
Amortization of deferred subsidies for capital assets	3 573 317	3 537 128
Write-off of immovables, etc.	1 048	10 345
	<u>\$24 854 427</u>	<u>\$24 210 974</u>

6. CUMULATED APPROPRIATED SURPLUS

These amounts are allocated to the maintenance of assets and the future acquisition of capital assets.

7. INVESTMENTS AVAILABLE FOR SALE

	2008	2007
Gouvernement du Québec and municipal bonds at rates ranging from 3.6% to 11.37%	\$4 548 730	\$1 523 698
Bankers' acceptances at rates ranging from 3.0% to 3.4%	6 300 459	
	<u>10 849 189</u>	<u>1 523 698</u>
Portion maturing during the next fiscal year	9 180 142	200 800
	<u>\$1 669 047</u>	<u>\$1 322 898</u>

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008**8. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST**

	2008	2007
Retraining, vocational upgrading and customized education	\$180 805	\$286 314
Lodging and food services	151 416	229 019
Accrued interest on investments	118 884	18 202
Tax receivable		484 988
Other	124 348	65 248
	<u>\$575 453</u>	<u>\$1 083 771</u>

9. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Capital assets			
Land	\$795 900		\$795 900
Building *	29 298 025	\$9 962 881	19 335 144
Permanent leasehold improvements *	19 903 968	10 176 011	9 727 957
Kitchen equipment and technical material	9 081 567	4 631 520	4 450 047
Computer equipment *	1 221 295	914 589	306 706
Rolling stock	25 972	12 986	12 986
Works of art	238 600		238 600
	<u>60 565 327</u>	<u>25 697 987</u>	<u>34 867 340</u>
Intangible assets			
Software *	599 804	329 965	269 839
	<u>\$61 165 131</u>	<u>\$26 027 952</u>	<u>\$35 137 179</u>
			<u>\$38 549 466</u>

* Capital assets include unamortized projects in progress for \$586 738.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
June 30, 2008

10. DEFERRED SUBSIDIES FOR CAPITAL ASSETS

	2008	2007
Gouvernement du Québec		
Opening balance	\$36 160 922	\$37 341 241
Gouvernement du Québec subsidy	381 817	2 356 809
Amortization for the fiscal year	<u>(3 573 317)</u>	<u>(3 537 128)</u>
Closing balance	<u>32 969 422</u>	<u>36 160 922</u>
Other		
Opening balance	12 500	39 700
Amortization for the fiscal year	<u>(5 000)</u>	<u>(27 200)</u>
Closing balance	<u>7 500</u>	<u>12 500</u>
	<u><u>\$32 976 922</u></u>	<u><u>\$36 173 422</u></u>

11. FRINGE BENEFITS**Pension plans**

Institut staff participates in the Government and Public Employees Retirement Plan (RREGOP), the Pension Plan of Management Personnel (PPMP) and the Upper Management Pension Plan, which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death. As at January 1, 2008, the Institut's RREGOP contribution rate increased from 7.06% to 8.19% of the covered payroll and that of the RRPE and the RRAS from 7.78 % to 10.54%.

The Institut's contributions charged to the year, based on defined-benefit plan accounting, totalled \$663 472 (2007: \$600 193), which constitutes the Institut's obligations to these plans.

	2008	2007
Provision for vacation time *		
Opening balance	\$1 397 793	\$1 362 707
Annual expenses	1 771 098	1 704 644
Benefits paid during the year	<u>(1 694 493)</u>	<u>(1 669 558)</u>
Closing balance	<u>1 474 398</u>	<u>1 397 793</u>
Provision for sick leave		
Opening balance	1 626 056	1 522 761
Annual expenses	882 203	537 514
Benefits paid during the year	<u>(925 813)</u>	<u>(434 219)</u>
Closing balance	<u>1 582 446</u>	<u>1 626 056</u>
	<u><u>\$3 056 844</u></u>	<u><u>\$3 023 849</u></u>

* Included in the item "Accounts payable and accrued liabilities".

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 June 30, 2008

12. LONG-TERM DEBT

	<u>2008</u>	<u>2007</u>
Borrowing from the Gouvernement du Québec Financing Fund, maturing on June 3, 2030, bearing interest at a rate of 5.258%, repayable in biannual payments of \$1 370 175, including principal and interest	\$35 198 128	\$36 032 947
Borrowing from the Gouvernement du Québec Financing Fund, maturing on June 3, 2030, bearing annual interest at a rate of 4.679%, repayable in biannual payments of \$112 762, including principal and interest	3 053 134	3 100 000
	<u>38 251 262</u>	<u>39 132 947</u>
Payments due within one year	<u>(961 114)</u>	<u>(881 685)</u>
	<u>\$37 290 148</u>	<u>\$38 251 262</u>

Payments of principal to be made over the next five fiscal years break down as:

2009	\$961 114
2010	\$1 011 828
2011	\$1 065 221
2012	\$1 121 434
2013	\$1 180 617

13. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments equals their book value, given that they mature in the short term.

The fair value of the long-term debt totalling \$40 518 965 (2007: \$40 420 337) using the market rate at as June 30, 2008 for discounting cash flows.

Credit risk

The Institut's exposure to credit risk corresponds to the book value of financial assets. The credit risk inherent in these assets is not confined to a single area of activity. The Institut is carrying out an ongoing evaluation of these assets and is accounting for a provision for losses when the accounts are deemed to be irrecoverable.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Institut did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

15. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

INSTITUT DE TOURISME ET D'HÔTELLERIE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut de tourisme et d'hôtellerie du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Institut recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Institut's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Lucille Daoust
Director General

Julien Girard, CGA, MAP
Head of Financial Resources and Procurement

Montréal, September 5, 2008

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut de tourisme et d'hôtellerie du Québec as at June 30, 2008 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Institut's financial position as at June 30, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes to the accounting policies pertaining to financial instruments, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, September 5, 2008

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC
(R.S.Q., c. I-13.1.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009			2008		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
REVENUES						
Gouvernement du Québec subsidies	\$33 817 670	\$16 285 921	\$50 103 591	\$32 187 626	\$14 834 164	\$47 021 790
Government of Canada subsidies	(8 200)	3 034 881	3 026 681	20 076	2 708 341	2 728 417
Sale of services	1 285 335	5 209 357	6 494 692	1 376 813	4 404 454	5 781 267
Other revenue	678 576	2 512 924	3 191 500	621 400	3 034 169	3 655 569
Amortization of deferred contributions for capital assets		965 313	965 313		1 163 469	1 163 469
Gains (loss) on sale of capital assets		(9 432)	(9 432)	1 440	(926)	514
Interest	73 520	388 578	462 098	36 672	607 831	644 503
Amounts carried forward	\$35 846 901	\$28 387 542	\$64 234 443	\$34 244 027	\$26 751 502	\$60 995 529

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009

	2009			2008		
	Regular activities	Special projects	Total	Regular activities	Special projects	Total
Amounts brought forward	\$35 846 901	\$28 387 542	\$64 234 443	\$34 244 027	\$26 751 502	\$60 995 529
EXPENSES						
Salaries and fringe benefits (Note 5)	24 356 379	13 673 921	38 030 300	22 336 245	12 319 983	34 656 228
Professional and administrative services	2 155 433	4 087 118	6 242 551	2 110 681	4 669 547	6 780 228
Medical and laboratory supplies	1 629 092	2 399 777	4 028 869	1 550 216	1 977 127	3 527 343
Premises	4 710 158	1 002	4 711 160	4 513 839	1 836	4 515 675
Amortization of capital assets	1 853 360	955 881	2 809 241	1 824 110	1 160 924	2 985 034
Travel expenses	612 822	1 033 220	1 646 042	603 022	825 840	1 428 862
Interest on long-term debt	495 282	36 723	532 005	566 664	40 021	606 685
Office expenses	392 579	230 063	622 642	391 535	199 055	590 590
Stationery and printing	108 045	802 644	910 689	148 171	233 553	381 724
Committee operating expenses	113 785	116 383	230 168	63 472	66 407	129 879
Maintenance and repairs	953 333	172 068	1 125 401	953 518	154 968	1 108 486
Outside training organization expenses	7 664	339 427	347 091	2 325	341 627	343 952
In-house training	244 056	152 716	396 772	184 220	101 386	285 606
Telecommunications	256 008	15 501	271 509	312 022	53 079	365 101
Documentation	206 822	67 275	274 097	169 380	42 763	212 143
Automotive equipment	62 477	49 391	111 868	87 752	48 867	136 619
Equipment rental	100 310	9 995	110 305	102 579	2 907	105 486
Insurance	35 472	21 980	57 452	27 267	22 549	49 816
Bad debts	(985)	(13 695)	(14 680)			
Bank charges	14 802	148	14 950	17 679	23	17 702
General expenses (Note 6)	(2 300 000)	2 300 000		(1 400 000)	1 400 000	
	36 006 894	26 451 538	62 458 432	34 564 697	23 662 462	58 227 159
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$(159 993)	\$1 936 004	\$1 776 011	\$(320 670)	\$3 089 040	\$2 768 370
The excess (deficiency) of revenues over expenses breaks down as:						
Unappropriated excess	\$223 441	\$2 761 635	\$2 985 076	\$37 218	\$3 511 551	\$3 548 769
Appropriated excess	(383 434)	(825 631)	(1 209 065)	(357 888)	(422 511)	(780 399)
	<u>\$(159 993)</u>	<u>\$1 936 004</u>	<u>\$1 776 011</u>	<u>\$(320 670)</u>	<u>\$3 089 040</u>	<u>\$2 768 370</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2009

		2009		2008
	Regular activities	Special projects	Total	Total
UNAPPROPRIATED CUMULATED SURPLUS				
Opening balance	\$338 199	\$2 716	\$340 915	\$779 829
Excess of revenues over expenses	223 441	2 761 635	2 985 076	3 548 769
Transfer to appropriated cumulated surplus		(2 740 436)	(2 740 436)	(3 987 683)
Closing balance	561 640	23 915	585 555	340 915
APPROPRIATED CUMULATED SURPLUS				
Opening balance	3 925 442	2 310 998	6 236 440	3 029 156
Annual expenses for appropriated surplus	(383 434)	(825 631)	(1 209 065)	(780 399)
Transfer of unappropriated cumulated surplus	2 700 000	40 436	2 740 436	3 987 683
Closing balance (Note 4)	6 242 008	1 525 803	7 767 811	6 236 440
TOTAL	\$6 803 648	\$1 549 718	\$8 353 366	\$6 577 355

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash	\$23 093 231	\$15 025 089
Accounts receivable (Note 7)	2 797 424	6 635 699
Subsidies receivable (Note 8)	16 257 768	16 520 110
Long-term receivable encashable next fiscal year (Notes 9 and 14)	69 239	65 529
Prepaid expenses	1 018 358	802 483
Supply stock - at cost	124 972	107 945
	<u>43 360 992</u>	<u>39 156 855</u>
Subsidies receivable (Note 8)	12 902 667	3 833 830
Long-term receivable (Notes 9 and 14)	505 983	575 223
Capital assets (Note 10)	<u>20 742 433</u>	<u>18 688 169</u>
	<u>\$77 512 075</u>	<u>\$62 254 077</u>
LIABILITIES		
Current liabilities		
Credit line (Note 11)	\$3 191 194	
Accounts payable and accrued liabilities (Note 12)	13 693 409	\$9 907 966
Deferred proceeds (Note 13)	22 768 526	24 872 281
Long-term debt maturing next fiscal year (Note 14)	909 183	1 478 366
	<u>40 562 312</u>	<u>36 258 613</u>
Deferred proceeds (Note 13)	11 003 929	5 959 329
Long-term debt (Note 14)	7 810 320	8 697 382
Provision for sick leave (Note 16)	409 227	424 901
Deferred contributions for capital assets	<u>9 372 921</u>	<u>4 336 497</u>
	<u>69 158 709</u>	<u>55 676 722</u>
CUMULATED SURPLUS		
Unappropriated cumulated surplus	585 555	340 915
Appropriated cumulated surplus (Note 4)	<u>7 767 811</u>	<u>6 236 440</u>
	<u>8 353 366</u>	<u>6 577 355</u>
	<u>\$77 512 075</u>	<u>\$62 254 077</u>
COMMITMENTS (Note 17)		

The notes are an integral part of the financial statements.

Luc Boileau, M.D.
W. Robert Laurier, FCA

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$1 776 011	\$2 768 370
Effect of items not affecting cash flows:		
Amortization of capital assets	2 809 241	2 985 034
Amortization of deferred contributions for capital assets	(965 313)	(1 163 469)
Loss (gain) on sale of capital assets	9 432	(514)
	<u>3 629 371</u>	<u>4 589 421</u>
Change in non-cash items related to operations		
Decrease (increase) of accounts receivable	3 838 275	(5 306 474)
Decrease (increase) in prepaid expenses	(215 875)	167 139
Increase in supply stocks	(17 027)	(3 995)
Decrease (increase) in subsidies receivable	(8 806 495)	1 185 294
Increase in accounts payable and accrued liabilities (Note 12)	3 255 061	1 128 383
Increase (decrease) in provision for sick leave	(15 674)	17 632
Increase in deferred revenue	2 940 845	2 405 871
	<u>979 110</u>	<u>(406 150)</u>
Cash flows from operating activities	<u>4 608 481</u>	<u>4 183 271</u>
INVESTMENT ACTIVITIES		
Acquisitions of capital assets (Note 10)	(4 342 555)	(4 001 492)
Revenue from the disposal of capital assets		3 060
Encashment of the long-term receivable	65 530	62 018
Cash flows used for investment activities	<u>(4 277 025)</u>	<u>(3 936 414)</u>
FINANCING ACTIVITIES		
Long-term debt	3 191 194	
Long-term debt repayment	27 001	205 310
Deferred contributions for capital assets	(1 483 246)	(1 215 327)
Deferred contributions for capital assets	6 001 737	70 942
Cash flows from financing activities	<u>7 736 686</u>	<u>(939 075)</u>
INCREASE (DECREASE) OF CASH	8 068 142	(692 218)
OPENING CASH	<u>15 025 089</u>	<u>15 717 307</u>
CLOSING CASH	<u><u>\$23 093 231</u></u>	<u><u>\$15 025 089</u></u>
ADDITIONAL INFORMATION		
Interest paid	<u>\$536 710</u>	<u>\$563 079</u>

The notes are an integral part of the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Institut, established by the *Act respecting the Institut national de santé publique du Québec* (R.S.Q., chapter I-13.1.1), is a legal person and agent of the State mandated to support the Minister of Health and Social Services and the *Agences de la santé et des services sociaux set up under the Act* respecting health services and social services (R.S.Q., c. S-4.2) in carrying out their public health mission.

2. ACCOUNTING POLICIES

For the purposes of the preparation of its financial statements, the Institut relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the CICA handbook.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The key factors subject to an estimate are the useful life-span of the capital assets, the provision for sick leave, the provision for vacation time, and the provision for pay equity. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and amortized over their service lives using the straight-line method and the following rates:

	in the duration
Major fit-up	of leases
Specialized equipment	10 to 20%
Computer equipment	20 to 33 1/3%
Software and licences	20 to 33 1/3%
Automotive equipment	10 to 20%
Furnishings and equipment	20%
Leasehold improvements	20%

Computer development in progress is not amortized and will be amortized as of the date that it is put into service.

Deferred contributions for capital assets

Contributions received for acquisition of or in the form of amortizable capital assets are deferred and transferred to revenues using the same method and rates as those used to amortize the intangible assets to which they are related.

Revenue reporting

Subsidies for special projects are posted to results in accordance with work progress method. Certain subsidies receivable are conditional on the government's approval of the funds.

Revenues from service delivery are posted when the following conditions have been fulfilled:

- There is convincing evidence that an agreement exists;
- The services have been rendered;
- The selling price has been determined or can be determined;
- Recovery is reasonably certain.

Deferred revenues comprise the amounts received and receivable for services not rendered in keeping with contractual agreements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Institut lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations stemming from sick leave accumulated by the employees are now evaluated on an actuarial basis by means of a simplified estimating method that relies on the most probable assumptions determined by the government. These assumptions are re-evaluated each year. The corresponding liabilities and expenses that result therefrom are recognized on the basis of the method of acquisition of these fringe benefits by the employees, i.e. according to the accumulation and use by the employees of sick days. Short-term obligations are accounted for at cost.

3. CHANGE IN ACCOUNTING POLICIES

Change in authoritative accounting pronouncements

For the purposes of the preparation of its financial statements, the Institut has relied primarily since April 1, 2008 on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook.

The Institut previously used the CICA handbook for the private sector. The presentation of the financial statements of the preceding fiscal year has been modified to take into account the change in the authoritative accounting pronouncements.

The change in the authoritative accounting pronouncements has led to the following modifications:

- Capital assets

The capital assets and intangible assets have been grouped together under the item "capital assets." In addition, the deferred contributions in respect of capital assets and deferred contributions in respect of intangible assets have been grouped together under the item "deferred contributions in respect of capital assets."

- Change in the method of amortizing major fit-ups

The Institut previously used the sinking fund method at the rate of the corresponding debt. Following the change in the frame of reference, the Institut has used the straight-line depreciation method on the duration of leases. This modification has been applied prospectively and has had the effect of increasing the amortization expense of capital assets by \$69 469 for the current fiscal year.

4. APPROPRIATED CUMULATED SURPLUS

The appropriated cumulated surplus consists of the appropriated cumulated surplus for regular activities and the appropriated cumulated surplus for special projects.

The Institut's management decided to use part of the unappropriated cumulated surplus for regular activities, in keeping with the current policy adopted by the Board of Directors to acquire immovables, notably specialized laboratory and management information systems equipment and to implement the Institut's action plan resulting from an audit and self-assessment process targeting the organization as a whole in keeping with the authorizations needed from the Québec Minister of Health and Social Services. The balance of the appropriated cumulated surplus at March 31, 2009 in the amount of \$6 242 008 will be used to round out the financing of these decisions.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. APPROPRIATED CUMULATED SURPLUS (cont'd)**

The appropriated cumulated surplus for special projects in the amount of \$1 525 803 as at March 31, 2009 will be used, in keeping with the policy adopted by the Board of Directors, to help finance authorized projects related to scientific innovation and special projects directly related to the Institut's mission.

5. SALARIES AND FRINGE BENEFITS

Salaries and fringe benefits do not include doctors' wages, which are paid by the Régie de l'assurance maladie du Québec (RAMQ).

6. GENERAL EXPENSES

General expenses charged to special projects and recovery for regular activities represent the estimated value of the expenses for support services offered in the context of the Institut's different special projects.

7. ACCOUNTS RECEIVABLE

	2009	2008
Gouvernement du Québec	\$436 929	\$4 951 088
Government of Canada	1 522 259	938 715
Other	838 236	745 896
	<u>\$2 797 424</u>	<u>\$6 635 699</u>

8. SUBSIDIES RECEIVABLE

	2009	2008
Gouvernement du Québec	\$24 735 724	\$14 599 605
Government of Canada	3 017 866	4 090 145
Other	1 406 845	1 664 190
	<u>29 160 435</u>	<u>20 353 940</u>
Minus: portion maturing next fiscal year		
Gouvernement du Québec	(12 210 739)	(10 989 815)
Government of Canada	(2 655 224)	(4 090 145)
Other	(1 391 805)	(1 440 150)
	<u>(16 257 768)</u>	<u>(16 520 110)</u>
	<u>\$12 902 667</u>	<u>\$3 833 830</u>

9. LONG-TERM RECEIVABLE

Mandated by the Commission de la santé et de la sécurité du travail (CSST) to acquire and operate a mobile unit for detecting occupational illnesses, the Institut has a related long-term receivable.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**9. LONG-TERM RECEIVABLE (cont'd)**

	2009	2008
Long-term receivable at fixed rate of 5.52%, encashable in monthly instalments of \$8 271, including principal and interest, maturing in January 2017	\$575 222	\$640 752
Minus: portion maturing next fiscal year	(69 239)	(65 529)
	<u>\$505 983</u>	<u>\$575 223</u>

10. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Major fit-up	\$11 969 580	\$3 948 625	\$8 020 955	\$8 852 036
Specialized equipment	8 740 938	4 521 661	4 219 277	4 197 281
Computer equipment	4 942 060	3 932 047	1 010 013	1 326 431
Software and licences	1 099 860	1 060 765	39 095	106 319
Automotive equipment	1 435 747	794 312	641 435	774 943
Furnishings and equipment	3 187 259	2 372 233	815 026	988 118
Leasehold improvements	207 641	184 648	22 993	40 781
Computer development in progress	5 973 639		5 973 639	2 402 260
	<u>\$37 556 724</u>	<u>\$16 814 291</u>	<u>\$20 742 433</u>	<u>\$18 688 169</u>

Acquisitions totalled \$4 872 937 (2008: \$3 414 198), of which \$4 123 442 (2008: \$3 195 085) was disbursed during the fiscal year, with \$219 113 (2008: \$806 407) being disbursed for acquisitions dating from the previous fiscal year.

Computer development in progress represents the Institut's share in the realization of the Québec phase of the Pan-Canadian solution PANORAMA. The Institut's share will make it possible to develop a public health computer system that supports the following functions:

- immunization management including the vaccination register, monitoring of unusual clinical manifestations and management of immunizing products;
- monitoring and reporting of infectious syndromes and diseases that must be declared;
- management of cases and contacts with infectious diseases;
- management of outbreaks related to infectious disease epidemics;
- management of health warnings.

The development in progress for a total authorized amount of \$15 635 897 is being financed through the credit line (Note 11) that is reserved for this purpose. Interest on the credit line is capitalized at the cost of the computer development in progress. When the computer development in progress is completed, the credit line will be transferred to a long-term loan, which will be reimbursed using the new appropriations granted by the ministère de la Santé et des Services sociaux.

The subsidies receivable, the revenues deferred and the deferred contributions in respect of capital assets for the fiscal year ended March 31, 2008 have been restated as regards accounting for the PANORAMA project by the amount of \$11 710 000, \$9 307 740 and \$2 402 260, respectively, bearing in mind that this project is not deemed to be a special project.

No amortization was posted for computer development in progress, given that the system was not operational at March 31, 2009.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. CREDIT LINE**

The Institut has available a credit line for the realization of activities related to computer development in progress. The credit line, in the authorized amount of \$7 000 000, bears interest at the bankers' acceptances 30-day rate plus 0.3% and falls due in December 2011. As at March 31, 2009, the rate was 0.959%.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Gouvernement du Québec	\$2 130 406	\$2 045 312
Provision for sick leave payable annually	200 727	173 844
Other	11 362 276	7 688 810
	<u>\$13 693 409</u>	<u>\$9 907 966</u>

Accounts payable and accrued liabilities totalled \$12 943 914 (2008: \$9 688 853), costs for the acquisition of capital assets were \$749 495 (2008: \$219 113).

13. DEFERRED REVENUES

	2009	2008
Gouvernement du Québec	\$28 534 213	\$23 460 059
Government of Canada	3 509 230	4 461 579
Other	1 729 012	2 909 972
	<u>33 772 455</u>	<u>30 831 610</u>
Minus: portion maturing next fiscal year		
Gouvernement du Québec	(18 258 503)	(18 133 392)
Government of Canada	(3 146 588)	(4 461 579)
Other	(1 363 435)	(2 277 310)
	<u>(22 768 526)</u>	<u>(24 872 281)</u>
	<u>\$11 003 929</u>	<u>\$5 959 329</u>

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

14. LONG-TERM DEBT

	2009	2008
Borrowings on notes		
Fixed rate of 5.52%, guaranteed by account receivable, repayable in monthly instalments of \$8 271 including principal and interest, maturing in January 2017	\$629 621	\$692 670
Repaid during the fiscal year		631 043
Borrowings from the Société immobilière du Québec		
Fixed rate of 4.28%, repayable in monthly instalments of \$1 172 including principal and interest, maturing in November 2010	22 579	
Fixed rate of 4.48%, repayable in monthly instalments of \$3 812 including principal and interest, maturing in July 2012	141 379	179 843
Fixed rate of 4.70%, repayable in monthly instalments of \$15 463 including principal and interest, maturing in May 2014	849 705	991 681
Fixed rate of 6.08%, repayable in monthly instalments of \$52 317 including principal and interest, maturing in August 2017	4 075 986	4 443 750
Fixed rate of 5.52%, repayable in monthly instalments of \$34 106 including capital and interest, maturing in August 2018	3 000 233	3 236 761
	8 719 503	10 175 748
Minus: portion maturing next fiscal year	(909 183)	(1 478 366)
	<u>\$7 810 320</u>	<u>\$8 697 382</u>

The principal to be paid on the long-term debt over the coming five years breaks down as:

2010	\$909 183
2011	956 367
2012	1 001 420
2013	1 027 947
2014	1 071 485
2015 and thereafter	3 753 101

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Institut is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Institut did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

16. FUTURE FRINGE BENEFITS**Pension plans**

Institut staff participates in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP). These inter-enterprise defined-benefit plans include guaranteed payments on retirement and death. At January 1, 2008, the Institut's RREGOP contribution rate is 8.19% (7.06% prior to January 1, 2008) of the contributory payroll and that of the RRPE is 10.54% (7.78% prior to January 1, 2008).

The Institut's contributions charged to the year-end statement totalled \$1 678 654 (2008: \$1 359 908). Its liability towards the Government plans is restricted to its employer contributions.

Provision for sick leave

The Institut has modified during the fiscal year its method of evaluating obligations in respect of a sick leave credits. These obligations will from now on be evaluated according to an actuarial method that takes in account the breakdown of accrued benefits. This change in accounting estimate has had little impact on the value of the obligation as at March 31, 2009 and has been applied prospectively.

The Institut has a long-term sick leave incentive program. However, the Institut recognizes the sick leave credits of employees when they are transferred to the Institut by a body that has such a program. On the other hand, the right to accumulate sick leave ends at the time of transfer.

The employees concerned are entitled each year to cash out the sick leave should they terminate their employment, retire or die, at the rate of 100% for the first 60 days accumulated and 50% for the additional days, up to an amount representing the equivalent of 90 days. The employees may also choose to use the sick leave accumulated as fully paid leave days in the event of early retirement.

The provision for sick leave is adjusted to take into account annual salary adjustments. It is established by means of a method that breaks down the cost of this program over the duration of the active careers of the employees.

Subsequent evaluations and estimates

The provision for sick leave in respect of the sick leave credit program for transferred employees has been capitalized based on the following long-term estimates and economic assumptions as at March 31, 2009:

	<u>RREGOP</u>	<u>RRPE</u>
Indexation rate	2%	2%
Capitalization rate (rate for Québec bonds maturing in 10 years)	2.53%	1.59%
Average residual duration of activity of active employees	5 years	2 years
	<u>2009</u>	<u>2008</u>
Opening balance	\$424 901	\$470 599
Annual expenses	42 489	(11 049)
Benefits paid during the year	<u>(58 163)</u>	<u>(34 649)</u>
Closing balance	<u>\$409 227</u>	<u>\$424 901</u>

The provision for sick leave payable annually in the amount of \$200 727 (2008: \$173 844) is included under "Accounts payable and accrued liabilities." No capitalization calculation concerning the provision for sick leave payable annually is deemed to be necessary, since the leave will be taken or cashed out during the following fiscal year.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

16. FUTURE FRINGE BENEFITS (cont'd)**Provision for sick leave (cont'd)**

The \$2 753 268 (2008: \$2 531 710) provision for vacation time is included under “Accounts payable and accrued liabilities”. No capitalization calculation concerning the provision for sick leave is deemed to be necessary, since the Institut believes that the accumulated leave will be taken in the subsequent fiscal year.

17. COMMITMENTS

As at March 31, 2009, the Institut committed itself in respect of the research theme “public and environmental health” at the CHUQ to pay, until December 2012, a maximum amount of \$1 771 667 for the realization of various public health mandates.

The Institut has also committed itself under agreements to pay an amount of \$2 155 717 for the realization of various work. The minimum payments due and payable under these agreements over the next five fiscal years stands at \$1 634 834 in 2009-2010, \$208 176 in 2010-2011, \$102 179 in 2011-2012, \$104 222 in 2012-2013 and \$106 306 in 2013-2014.

18. PAY EQUITY

Following the adoption of the Pay Equity Act on November 21, 1996, the Institut must assess its different job categories. On the date the financial statements were prepared, the Institut was able to assess the amount it might have to pay, if applicable, given that this process had not yet been completed. However, a provision was posted in the financial statements to reflect the work's progress and revised regularly.

19. COMPARATIVE FIGURES

Certain figures for 2008 have been reclassified to bring them into line with the presentation adopted in 2009.

INSTITUT NATIONAL DE SANTÉ PUBLIQUE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Institut national de santé publique du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Institut recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Institut's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Luc Boileau, MD
President and Chief Executive Officer

Jean-Louis Coulombe, CMA
Director of Financial and Material Resources

Québec, June 5, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Institut national de santé publique du Québec as at March 31, 2009 and the statement of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Institut's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institut as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the changes in accounting policies resulting from the adoption of accounting principles for the public sector, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 5, 2009

INVESTISSEMENT QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31,
(in thousands of dollars)

	2009	2008
ASSETS		
Cash	2 972	1 946
Temporary investments (Note 5)	71 019	97 487
Investments (Note 6)	3 077 077	3 010 516
Loans, less the allowance for losses (Notes 7 and 12)	610 496	560 561
Shares (Notes 8 and 12)	53 019	55 570
Units (Notes 9 and 12)	1 394	1 919
Guarantee fees receivable, less the allowance for losses (Notes 10 and 12)	124 438	115 232
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts (Note 13)	957 767	810 910
Allowance for losses recoverable from the Government of Québec (Note 12)	622 552	453 610
Other assets (Note 14)	16 754	11 032
	<u>5 537 488</u>	<u>5 118 783</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Short-term borrowings (Note 15)	472 100	255 800
Long-term borrowings (Note 16)	3 853 733	3 778 372
Interest due and accrued on borrowings from the Government of Québec Financing Fund	9 968	17 747
Guarantee liability (Notes 11 and 12)	358 531	250 683
Deferred benefits conferred by immigrant investors	211 875	223 670
Other liabilities (Note 17)	73 345	43 593
	<u>4 979 552</u>	<u>4 569 865</u>
EQUITY		
Initial equity	32 944	32 944
Retained earnings	542 172	511 446
Accumulated other comprehensive income (loss)	(17 180)	4 528
	<u>524 992</u>	<u>515 974</u>
	<u>557 936</u>	<u>548 918</u>
	<u>5 537 488</u>	<u>5 118 783</u>
GUARANTEES, LESS THE GUARANTEE LIABILITY (Notes 11 and 12)	<u>2 275 093</u>	<u>1 984 273</u>

FINANCING AND INVESTMENT COMMITMENTS (Note 30)**OTHER COMMITMENTS (Note 31)****CONTINGENCIES (Note 35)**

The accompanying notes form an integral part of the financial statements.

On behalf of the Board of Directors,
Robert Cloutier, Chair of the Board of Directors
Michael Ross, CA, Chair of the Audit Committee

INVESTISSEMENT QUÉBEC
(R.S.Q., c. I-16.1)

CONSOLIDATED STATEMENT OF INCOME
for the year ended March 31
(in thousands of dollars)

	2009	2008	2007
INTEREST INCOME			
Interest on financing operations and revaluation of contributions			
In the form of benefits conferred to clients (Note 18)	104 893	107 402	52 686
Interest on notes receivable from the Government of Québec	114 062	107 154	95 215
Interest on cash and temporary investments	1 866	1 337	1 145
Interest contributions from the Government of Québec			45 095
	<u>220 821</u>	<u>215 893</u>	<u>194 141</u>
Interest expense (Note 19)	<u>166 895</u>	<u>172 662</u>	<u>51 857</u>
NET INTEREST INCOME	<u>53 926</u>	<u>43 231</u>	<u>142 284</u>
OTHER INCOME			
Benefits conferred by immigrant investors	105 749	109 790	
Guarantee fees	36 945	35 187	22 073
Risk premiums			
Stock call options (Note 20)	2 681	852	2 720
Share-in-income and other premiums	4 234	6 046	9 132
Commitment fees	7 268	6 373	6 599
Other income (Note 21)	6 399	10 071	14 905
	<u>163 276</u>	<u>168 319</u>	<u>55 429</u>
	<u>217 202</u>	<u>211 550</u>	<u>197 713</u>
PROVISION			
Provision for losses (Note 12)	219 378	184 703	(4 899)
Provision for losses recoverable from the Government of Québec (Note 12)	<u>(200 884)</u>	<u>(171 107)</u>	<u>8 253</u>
	<u>18 494</u>	<u>13 596</u>	<u>3 354</u>
NON-INTEREST EXPENSES			
Financial contributions (Note 22)	233 663	181 159	69 535
Financial contributions assumed by the Government of Québec (Note 22)	(172 038)	(125 119)	(19 666)
Fees to financial intermediaries	48 765	50 540	39 545
Administrative expenses (Note 23)	53 516	49 996	47 639
Other expenses (Note 24)	4 076	4 006	3 789
	<u>167 982</u>	<u>160 582</u>	<u>140 842</u>
NET INCOME	<u>30 726</u>	<u>37 372</u>	<u>53 517</u>

The accompanying notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 for the year ended March 31
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
NET INCOME	<u>30 726</u>	<u>37 372</u>
Other comprehensive income (loss)		
Unrealized net losses on available-for-sale financial assets	(22 598)	(2 891)
Reclassification to net income of losses (gains) on available-for-sale financial assets	<u>890</u>	<u>(480)</u>
Net change in unrealized losses on available-for-sale financial assets	<u>(21 708)</u>	<u>(3 371)</u>
COMPREHENSIVE INCOME	<u><u>9 018</u></u>	<u><u>34 001</u></u>

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY
 for the year ended March 31
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
INITIAL EQUITY	<u>32 944</u>	<u>32 944</u>
RETAINED EARNINGS, BEGINNING OF YEAR	511 446	476 441
Initial impact of adopting financial instrument accounting standards		(2 367)
Net income	<u>30 726</u>	<u>37 372</u>
RETAINED EARNINGS, END OF YEAR	<u>542 172</u>	<u>511 446</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME, BEGINNING OF YEAR	4 528	
Initial impact of adopting financial instrument accounting standards		7 899
Net change in unrealized losses on available-for-sale financial assets	<u>(21 708)</u>	<u>(3 371)</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	<u>(17 180)</u>	<u>4 528</u>
EQUITY	<u><u>557 936</u></u>	<u><u>548 918</u></u>

The accompanying notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC
CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended March 31,

(in thousands of dollars)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	30 726	37 372	53 517
Adjustments for:			
Amortization of issuance expenses on long-term borrowings	651	685	719
Amortization of premium on long-term borrowings	(1 129)	(1 129)	(1 129)
Amortization of premiums and discounts on investments	(112 966)	(106 024)	(93 847)
Amortization of deferred fees to financial intermediaries			29 686
Benefits conferred by immigrant investors	(105 749)	(109 790)	
Interest expenses related to notes from immigrant investors	112 893	106 321	
Benefits conferred to clients	124 734	89 479	
Benefits conferred to clients assumed by the Government of Québec	(114 573)	(86 951)	
Imputed interest income	(71 725)	(102 570)	
Imputed guarantee fees	(35 463)	(34 367)	
Revaluation of contributions in the form of benefits conferred to clients	(33 142)	(4 820)	
Loss resulting from the change in fair value of publicly traded participating shares	3 131	698	
Interest on guarantee liability	15 887	12 266	
Loss (gain) on disposal of private company shares and on units	20	(755)	(66)
Loss (gain) on available-for-sale financial assets	890	(480)	(1 338)
Change in unrealized depreciation on investments	12 967	7 560	2 608
Unrealized exchange gain			(149)
Unrealized loss resulting from the change in fair value of derivative financial instruments	22 235	8 593	1 062
Provision for losses	219 378	184 703	(4 899)
Provision for losses recoverable from the Government of Québec	(200 884)	(171 107)	8 253
Amortization of fixed assets and finite life intangible assets	1 280	1 027	864
Loss on disposal of fixed assets and finite life intangible assets		2	
Share of income – Entity subject to significant influence, Canadair Québec Capital S.E.N.C.			53
Change in operating assets and liabilities (Note 25)	(12 078)	10 868	634
	<u>(142 917)</u>	<u>(158 419)</u>	<u>(4 032)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease (increase) in temporary investments with maturities exceeding three months after the acquisition date	4 936	(24 165)	
Acquisition of investments	(726 487)	(841 647)	(551 935)
Disposal of investments	737 292	591 050	274 872
Net decrease (increase) in loans	(187 196)	(106 673)	9 069
Net decrease in shares	216	15 410	284
Net increase in units	(71)	(73)	(46)
Net decrease in guarantee fees receivable	22 111	21 613	
Acquisitions of fixed assets and finite life intangible assets	(1 625)	(1 460)	(1 405)
Deferred fees to financial intermediaries			(30 942)
	<u>(150 824)</u>	<u>(345 945)</u>	<u>(300 103)</u>
Amounts carried forward	<u>(293 741)</u>	<u>(504 364)</u>	<u>(304 135)</u>

INVESTISSEMENT QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31,
(in thousands of dollars)

	2009	2008	2007
Amounts brought forward	(293 741)	(504 364)	(304 135)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in short-term borrowings	216 300	197 800	(43 900)
Long-term borrowings	599 700	766 300	587 300
Repayments of long-term borrowings	(542 800)	(411 400)	(216 000)
	273 200	552 700	327 400
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20 541)	48 336	23 265
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	75 268	26 932	3 667
CASH AND CASH EQUIVALENTS, END OF YEAR	54 727	75 268	26 932
CASH AND CASH EQUIVALENTS			
Cash	2 972	1 946	9 440
Temporary investments with maturities not exceeding three months after the acquisition date	51 755	73 322	17 492
	54 727	75 268	26 932
ADDITIONAL INFORMATION			
Interest paid	46 461	55 946	48 597

The accompanying notes form an integral part of the financial statements.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

1. INCORPORATING LEGISLATION AND NATURE OF ACTIVITIES

Investissement Québec is a legal person established in the public interest that is incorporated under and governed by the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1). Under section 2 of its incorporating act, the Corporation is a mandatary of the State and is therefore not subject to income tax in Québec or Canada.

Investissement Québec's mission is to facilitate investment growth in Québec, thereby contributing to economic development and job creation in the province. It centralizes and consolidates government initiatives aimed at finding, promoting and supporting investment. It works to both stimulate domestic investment and to attract investors from outside Québec by promoting Québec as a prime location for investment. Investissement Québec contributes to business growth, in particular by facilitating research and development as well as export activities. It also works to retain current investment by supporting companies that have set up business in Québec. Furthermore, it is also called upon to provide companies, government departments and agencies, as well as state-owned corporations with technical services, particularly in the areas of financial analysis, financing arrangements and portfolio management. Investissement Québec administers all financial assistance programs developed by the Government of Québec with respect to investment. In addition, the Corporation administers the *Act respecting Québec business investment companies* (R.S.Q., c. S-29.1) and carries out any mandates entrusted to it by the government under sections 28 and 29 of its incorporating act. It uses its financing operations to support Québec-based businesses as well as companies setting up operations in Québec, mainly by granting loans or guaranteeing their financial commitments with financial institutions. It also administers financial assistance programs set out in the *Act respecting assistance for the development of cooperatives and non-profit legal persons* (R.S.Q., c. A-12.1). Under Bill 68, which was approved by the National Assembly on December 13, 2005, Investissement Québec has acquired the rights and assumed the obligations of Société de développement de la Zone de commerce international de Montréal à Mirabel, which has been dissolved. Also, under Order in Council 1027-2006, dated November 8, 2006, Investissement Québec acquired the rights and assumed the obligations of Innovation-Papier (INNO-PAP), which has been dissolved.

Section 46 of the *Act respecting Investissement Québec and La Financière du Québec* requires that the parent company formulate a strategic plan (including the operations of its subsidiaries) in accordance with the form, content and intervals set by the Government of Québec. The Corporation's plan was approved on August 28, 2007 (Order in Council 743-2007) and ends on March 31, 2010. Under the plan, the Government of Québec contributes to the Corporation's funding by reimbursing certain financial contributions and losses on certain financing operations (according to the terms and conditions of the programs or orders in council under which they were set up) by paying the Corporation interest contributions on certain financing operations for which it refunds losses, and by paying it fees.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of the Corporation's financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions, particularly in determining the initial fair values and fiscal year-end fair values of financial assets and financial liabilities. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates, and any impact is recorded in the consolidated financial statements of future years.

Consolidation

The consolidated financial statements include the financial statements of Investissement Québec and those of its wholly owned subsidiaries: IQ Immigrants Investisseurs inc., IQ FIER inc., 9037-6179 Québec inc., 9071-2076 Québec inc., 9109-3294 Québec inc. and La Financière du Québec. All assets, liabilities, revenues and expenses of these subsidiaries are included in these consolidated financial statements. Intercompany balances and transactions have been eliminated.

IQ FIER inc., a wholly owned subsidiary, qualifies as an investment company within the meaning of Accounting Guideline No. 18, "Investment Companies" (AcG-18) of the Canadian Institute of Chartered Accountants' Handbook. Under this guideline, investments are accounted for at fair value, which is the amount of the consideration that would be agreed upon, at the date of the financial statements, in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The realizable values of investments may vary significantly from their fair values as a result of changes in market conditions. AcG-18 also sets out the circumstances under which a parent company that owns an investment company must account for the investment company's investments at fair value. Investissement Québec is the parent company of such an investment company and complies with the criteria for maintaining the fair value accounting treatment for investments adopted by IQ FIER inc.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting standards adopted on April 1, 2008

On April 1, 2008, the Corporation adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants: Section 1535, “Capital Disclosures”; Section 3862, “Financial Instruments – Disclosures”; section 3863, “Financial Instruments – Presentation.”

Section 1535 sets out the information to be disclosed about an entity’s objectives, policies and processes for managing capital, about quantitative data on items that it considers as capital, about its compliance with capital requirements, and about the consequences of non-compliance with these requirements.

Sections 3862 and 3863 present disclosure and presentation requirements applicable to financial instruments; they amend and enhance the disclosure requirements of Section 3861, “Financial Instruments – Disclosure and Presentation,” and carry forward unchanged the presentation requirements.

Section 3862 requires entities to provide disclosures that enable financial statement users to evaluate the significance of financial instruments to the entity’s financial position and performance and to assess the nature and extent of the risks arising from the financial instruments to which the entity is exposed and how the entity manages those risks.

The adoption of these new standards had no impact on the Corporation’s results, as these sections specifically address disclosure requirements.

The significant accounting policies outlined below apply to the years ended March 31, 2009, 2008 and 2007. When a different accounting treatment applies to the year ended March, 31, 2007, the accounting policy applicable to that year is noted accordingly.

Classification and measurement of financial instruments

All financial instruments, except certain exclusions set out in Section 3855, must be classified in accordance with their features, Management’s intention, or the choice of category under certain circumstances. Upon initial recognition, all assets are classified either as held for trading, held to maturity, available for sale, or loans and receivables, whereas financial liabilities are classified as held for trading or as other financial liabilities. This standard allows entities to irrevocably designate, upon initial recognition, any financial asset or liability as an instrument held for trading.

Upon initial recognition, all financial assets and liabilities, including derivative financial instruments, are measured at fair value. Any difference between the fair value and the cash consideration is immediately recognized in income, unless it meets the accounting criteria of another type of asset or liability.

In subsequent periods, financial assets and liabilities held for trading, including derivative financial instruments, are measured at fair value, and the gains and losses are recorded in income. Available-for-sale financial assets are measured at fair value; the resulting unrealized gains and losses are recorded in other comprehensive income. Held-to maturity financial assets, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

Derivatives embedded in other financial instruments or contracts, other than those held or designed for trading purposes, are separated from their host contracts and accounted for as derivatives when the economic characteristics and risks they present are not closely related to the economic characteristics and risks of the host contract. The Corporation presents contracts containing embedded derivatives that have to be separated in “Assets related to derivative financial instruments” under the “Other assets” heading in the Consolidated Balance Sheet.

The fair value of a financial instrument is generally equal to the consideration for which the instrument would be traded in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act in the normal course of business; the best indication of fair value is market price.

The Corporation uses market prices (bid/ask prices), when they are available, to determine the fair value of financial instruments. When markets are non-existent or considered not sufficiently liquid, the Corporation establishes fair value using valuation techniques that draw, as much as possible, on observable market data. These valuation techniques consist, in particular, of discounted cash flows analyses, pricing models, and other valuation methods commonly used in the market.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Classification and measurement of financial instruments (cont'd)

When fair value is determined using pricing models, the Corporation makes assumptions about the amount, the timing of estimated future cash flows, and the estimated discount rates used. These assumptions are based mainly on observable factors in external markets such as yield curves, volatility factors and credit risk. For loans and receivables, pricing models are based on certain non-observable market assumptions such as the determination of future variable refunds. Replacing this assumption with another could result in a different fair value.

Cash and cash equivalents

Cash and cash equivalents consist of cash, temporary investments with maturities not exceeding three months after the acquisition date, and bank overdraft. Cash and cash equivalents are held for trading purposes and are recorded at fair value, which is considered to be equal to their carrying values due to their short-term maturities. Interest income is recorded under "Interest on cash and temporary investments" in the Consolidated Statement of Income.

Investments

Notes receivable from the Government of Québec

Notes receivable from the Government of Québec are classified in the loans and receivables category. Upon initial recognition, they are accounted for at fair value. Thereafter, they are presented on the balance sheet at amortized cost, and the purchase discounts are transferred to income using the effective interest method until maturity and are presented under "Interest on notes receivable from the Government of Québec" in the Consolidated Statement of Income.

Units of limited partnerships and unlisted shares of companies acting as general partners

Units of limited partnerships and unlisted shares of companies acting as general partners are investments held by a subsidiary that qualifies as an investment company within the meaning of AcG-18 and, accordingly, are recorded at fair value. This fair value is based on the audited financial statements of these entities as at December 31 and adjusted for the major transactions performed by the entities in the intervening period, which, as investment companies, are measured at fair value. However, under certain contractual agreements, if the cumulative net annual income less the cumulative net annual losses is positive at the end of the yield waiver period of each agreement, the Corporation waives its share. Accordingly, the fair value of investments reflects the impacts of such clauses.

Entity subject to significant influence

The Corporation accounts for its investment using the equity method since its participation includes voting rights that enable it to exercise significant influence over financial and administrative decisions.

Other investments

Bonds and other debt securities, money market securities as well as shares and other equity securities are designated as available-for-sale financial assets. The Corporation has chosen to account for transactions involving these assets on the transaction date and to add the related transaction fees to the carrying value of the investments.

These available-for-sale investments are recorded at fair value. Unrealized gains and losses on these investments are recorded under "Other comprehensive income" in the Consolidated Statement of Comprehensive Income. At the time of disposal, the realized gains or losses, determined using average cost, are reclassified to "Gain (loss) on available-for-sale financial assets" under "Other income" in the Consolidated Statement of Income on the transaction date.

The amortization of premiums and discounts calculated using the effective interest method as well as dividend and interest income are presented in "Income from other investments" under "Other income" in the Consolidated Statement of Income.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments (cont'd)

Other investments (cont'd)

Available-for-sale financial assets are periodically measured to determine whether there is objective evidence of other-than-temporary impairment. When determining whether there is objective evidence of impairment, the Corporation considers the following factors: the duration and significance of the decline in fair value compared to its cost and amortized cost; the financial position and outlook of the issuer; and the Corporation's ability and intention to hold these assets for a sufficient amount of time to recover the full fair value. When there is objective evidence that an available-for-sale investment is impaired, and there is a decline in fair value below cost or amortized cost that is other than temporary, the loss accumulated under "Accumulated other comprehensive income" is reclassified to "Gain (loss) on available-for-sale financial assets" in the Consolidated Statement of Income. These declines in value may not be reversed.

Loans

Loans are classified in the loans and receivables category. They are initially recorded at fair value and, subsequently, are presented in the Consolidated Balance Sheet at amortized cost, calculated using the effective interest method. The corresponding interest income is presented in "Interest on financing operations" in the Consolidated Statement of Income. Any difference between the fair value and the cash consideration is recognized immediately in "Benefits conferred to clients" under "Financial contributions".

When credit quality has deteriorated to the extent that there is no reasonable assurance that a loan will be collected in full (principal and interest), the loan is considered impaired. The resulting reduction in carrying value as well as any subsequent changes are charged to the provision for losses. The increase in carrying value due to the passage of time is presented under "Interest on financing operations" in the Consolidated Statement of Income, and the offset is recorded under "Provision for losses" in the Consolidated Statement of Income.

Foreclosed assets are presented as impaired loans and recorded at their fair value at the time of foreclosure. The reduction in carrying value is then recorded. Any subsequent reduction is charged to the provision for losses.

The carrying value of loans restructured as low-interest loans and interest-free loans is reduced to the present value of net cash flows receivable under the new provisions, at the effective interest rate inherent in the loan. The reduction in carrying value resulting from restructuring is charged to the provision for losses. The increase in carrying value due to the passage of time is recorded as interest income.

Fees collected to offset the costs of arranging loans are reported in income under "Commitment fees."

Allowance for losses

The allowance for losses on loans is shown on the Corporation's balance sheet as a reduction to the value of the loans. In the Corporation's opinion, this allowance reflects the most accurate estimate of foreseeable losses on the loans in its portfolio.

Corporate clients are classified into seven risk categories determined using solvency and credit criteria. This classification is updated regularly. One of these categories consists of insolvent clients, and two others are used for companies that are likely to become insolvent in the short term. All impaired loans are classified into one of these three categories. The allowance for losses on the financing operations included in these three categories equals the balance of each operation less the estimated realizable value of the collateral, to which a percentage adjustment is applied on the basis of loan collection experience for the companies in these categories. When a company assigned to one of these categories is winding up, has ceased repaying the Corporation, and for which a turnaround is unlikely, the related financing operations are written off.

The other four risk categories include companies whose financial profiles match that of the Corporation's target clientele. For each of these categories, a group allowance is calculated by applying an allowance rate to the balance of the financing operations. The allowance rate for each category is based on a statistical analysis of the number of companies that were downgraded and the size of the losses recognized of deemed probable in recent years.

Companies for which the financing operations show an exceptionally high cumulative balance or have special characteristics are subject to a specific analysis of the allowance for losses, regardless of their risk category.

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Loans (cont'd)***Allowance for losses (cont'd)*

Certain loans are forgivable in accordance with the conditions set out in the loan agreement. The allowance for losses on these loans therefore takes into account the risks inherent in the loan agreement in addition to the above-described insolvency risks.

Shares and units*Non-participating shares and preferred units with repayment terms*

Non-participating shares and preferred units with repayment terms are classified in the held-to-maturity assets category. Upon initial recognition, non-participating shares and preferred units with repayment terms are recorded at fair value. Thereafter, such shares and units are presented in the Consolidated Balance Sheet at amortized cost, calculated using the effective interest method. The corresponding interest income is presented under "Interest on financing operations" in the Consolidated Statement of Income. Any difference between the fair value and the cash consideration is immediately recognized in "Benefits conferred to clients" under "Financial contributions".

When credit quality has deteriorated to the extent that there is no reasonable assurance that non-participating shares and preferred units with repayment terms will be collected in full, such shares and units are considered impaired financing operations. The resulting reduction in carrying value and any subsequent changes are charged to the provision for losses. The increase in carrying value due to the passage of time is presented under "Interest on financing operations" in the Consolidated Statement of Income, and the offset is recorded under "Provision for losses" in the Consolidated Statement of Income.

The carrying value of loans restructured as non-participating shares with repayment terms is reduced to the present value of net cash flows receivable under the new provisions, at the effective interest rate inherent in the loan. The reduction in carrying value resulting from restructuring is charged to the provision for losses. The increase in the carrying value, due to the passage of time is recorded as interest income.

The allowance for losses on non-participating shares and units with repayment terms is presented on the Corporation's balance sheet as a reduction to the value of these assets. In the Corporation's opinion, this allowance reflects the most accurate estimate of the foreseeable losses on shares and units with repayment terms in its portfolio. The allowance for losses for the shares and units is established using the same methods as the allowance for loan losses.

Fees collected to offset the costs of arranging non-participating shares and preferred units with repayment terms are posted to income under "Commitment fees".

Non-participating shares and units without repayment terms

Non-participating shares and units without repayment terms are classified in the available-for-sale assets category. Upon initial recognition, they are recorded at fair value. Thereafter, they are recorded at cost since no quoted price exists for them on an active market.

When there is objective evidence that non-participating shares and units without repayment terms are impaired, and there is a decline in value below cost that is other than temporary, the impairment is recorded in the Corporation's balance sheet as a reduction to the carrying value of the non-participating shares and units without repayment terms recorded under "Provision for losses", in the Consolidated Statement of Income. These declines in value may not be reversed.

The carrying value of loans restructured as non-participating shares and units without repayment terms is reduced to their fair value under the new provisions indicated in the contract. The reduction in carrying value resulting from restructuring is charged to the provision for losses.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share and units (cont'd)

Publicly traded participating shares

The Corporation has chosen to classify publicly traded participating shares in the held-for-trading assets category. Upon initial recognition and during subsequent periods, publicly traded participating shares acquired upon the exercise of an option are recorded at fair value, which is determined using the bid price, and any transaction fees are carried directly to income. Realized and unrealized gains and losses on these shares as well as dividend income are recorded in income under "Gain (loss) resulting from the change in fair value of publicly traded participating shares" and in "Dividends" under "Other income".

Publicly traded participating shares arising from restructured loans are recorded at fair value. The difference between the carrying value of the loan prior to restructuring and that of the shares is written off.

Private corporation participating shares

Private corporation participating shares are classified in the available-for-sale assets category. Upon initial recognition, private corporation participating shares acquired upon the exercise of an option are recorded at fair value. The fair value is based on the carrying value of the company concerned. Subsequently, private corporation participating shares are presented at cost since no quoted price exists for them on an active market. Gains realized on these shares are presented in income under "Risk premiums-Stock call options." The dividend income is recorded in "Dividends" under "Other income".

When there is objective evidence that private corporation participating shares are impaired, and there is a decline in value below cost that is other than temporary, the impairment is presented in the Corporation's balance sheet as a reduction to the value of the private corporation participating shares recorded under "Provision for losses" in the Consolidated Statement of Income. In the Corporation's opinion, this provision reflects the most accurate estimate of the foreseeable losses on the private corporation participating shares in its portfolio. These declines in value may not be reversed.

Private corporation participating shares arising from restructured loans are initially recognized at fair value and subsequently at cost. The fair value is based on the carrying value of the company concerned. The difference between the carrying value of the loan prior to restructuring and that of the shares is charged to the provision for losses. Any subsequent decrease in the carrying value of the shares is also charged to the provision for losses. Any subsequent increase is recorded only when the shares are sold as gains on disposal of shares for the current year.

Guarantees

Guarantees are classified in the other financial liabilities category. Upon initial recognition, guarantee contracts are recorded at fair value. The Corporation accounts for its unconditional commitment to perform under guarantee contracts in the "Guarantee liability" item on the balance sheet, i.e., the present value of guarantee fees receivable at market rates. The Corporation also recognizes a receivable for the guarantee fees receivable from guarantee contracts in the "Guarantee fees receivable" item that appears on the balance sheet, i.e., the guarantee fees receivable in accordance with contractual provisions. Subsequently, the initial guarantee liability and receivable are presented on the Consolidated Balance Sheet at amortized cost, calculated using the effective interest method. Any difference between the fair value of the initial guarantee liability and the receivable is immediately recognized in "Benefits conferred to clients" under "Financial contributions".

The initial guarantee liability is charged to income over the term of the guarantee contract under "Guarantee fees," and the increase in carrying value due to the passage of time is recorded as an interest expense. Interest income from guarantee fees receivable is presented under "Interest on financing operations" in the Consolidated Statement of Income.

Since the carrying value of guarantees is not an indicator of the maximum obligation that the Corporation could be required to pay to a third party, the Corporation continues to consider guarantees as off-balance-sheet financial instruments.

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Guarantees (cont'd)**

A provision for losses is recognized in addition to the initial guarantee liability, if necessary. This provision is determined using the same methods as the allowance for loan losses. Once the provision for losses becomes greater than the unamortized balance of the initial guarantee liability, the guarantee liability must be adjusted according to the potential obligation to perform under the guarantee commitment. In the Corporation's opinion, the guarantee liability reflects the most accurate estimate of the foreseeable losses on the guarantee contracts in its portfolio.

When the credit quality has deteriorated to the extent that there is no reasonable assurance that guarantee fees receivable will be collected in full, the receivable is considered impaired. The resulting reduction in carrying value and any subsequent changes are charged to the provision for losses. The increase in carrying value due to the passage of time is presented in "Interest on financing operations" in the Consolidated Statement of Income, and the offset is recorded in "Provision for losses" in the Consolidated Statement of Income.

Guarantee claims are recognized when the disbursement is approved by the Corporation, provided the conditions are met. The disbursements are then applied against the guarantee liability, and the balance of the guarantees is reduced by the same amount. When the Corporation considers recovery to be reasonably assured, the disbursements are recognized as assets in accordance with accounting policies applicable to loans, shares or units, as the case may be.

Fees collected to offset the cost of arranging guarantee contracts are recognized in income under "Commitment fees."

Contribution recoverable from the Government of Québec – Benefits conferred to clients and other amounts

The Government of Québec contributes to the Corporation's funding by reimbursing certain financial contributions and losses on certain financing operations, by paying interest contributions on certain financing operations and by paying fees to the Corporation.

Contributions recoverable from the Government of Québec in the form of benefits conferred to clients consist of the recoverable amounts estimated by the Corporation. These amounts, which are considered non-contractual financial assets, reflect the difference between the fair value and cash consideration for the loans, shares and units, and any difference between the fair value of the receivable and the guarantee liability for the portion of financing operations for which the losses are reimbursed by the Government of Québec. The government's contribution, where applicable, is immediately recognized in income under "Financial contributions assumed by the Government of Québec." This contribution gives rise to an asset, "Contributions recoverable from the Government of Québec – Benefits conferred to clients," on the Consolidated Balance Sheet. Subsequently, this asset is presented on the Consolidated Balance Sheet at amortized cost, calculated using the effective interest method. The corresponding income is presented in "Revaluation of contributions in the form of benefits conferred to clients" under "Interest on financing operations and revaluation of contributions in the form of benefits conferred to clients" in the Consolidated Statement of Income.

Fixed assets

Fixed assets are recorded at cost and amortized, from the date they are put into service, on a straight-line basis over their estimated useful lives using the following rates:

Computer equipment	33 1/3%
Office furniture	10%
Leasehold improvements	10%

Finite life intangible assets

Software and information systems development are recorded at cost and amortized, from the date they are put into service, on a straight-line basis over their estimated useful lives using the following rates:

Software	33 1/3%
Information systems development	20%

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of long-lived assets

Management regularly examines long-lived assets for impairment when events or changes in circumstances suggest that their carrying value may not be recoverable. Impairment is determined by comparing the carrying value of an asset against the undiscounted future cash flows expected from its use and its residual value. If the value of the assets is considered impaired, the impairment is charged to the income of the period in which it is identified. This impairment constitutes the difference between the carrying value and the fair value of the asset. The future cash flow estimates require professional judgment and may vary with time.

Land held for decontamination purposes

The Corporation shares responsibility for the decontamination and clean-up of a parcel of land and sees to the leasing thereof. The land is valued at the lower of cost or net realizable value.

Borrowings

Borrowings are classified in the other financial liabilities category. Upon initial recognition, borrowings are recorded at fair value, except for the loan advances from the Government of Québec which are recorded at cost. Thereafter, borrowings are presented on the Consolidated Balance Sheet at amortized cost, calculated using the effective interest method. The corresponding interest expenses are presented under “Interest expense” in the Consolidated Statement of Income. Any difference between the fair value of notes payable to immigrant investors and the cash consideration is carried to the balance sheet under “Deferred benefits conferred by immigrant investors.” This amount is then gradually charged to income and considered as revenue under “Benefits conferred by immigrant investors” as the Corporation incurs the expenses that it contractually committed to incur with those amounts.

The issuance expenses, discounts and premiums are accounted for in the carrying value of the long-term borrowings and amortized using the effective interest method. The amortization of issuance expenses, discounts and premiums is reported in “Amortization of issuance expenses on long-term borrowings” and “Amortization of premiums (discounts) on long-term borrowings” under the “Interest expense” heading of the Consolidated Statement of Income.

Interest contributions from the Government of Québec (for the year ended March 31, 2007)

Interest contributions from the Government of Québec relate to low-yield or zero-yield financing operations and for which losses are reimbursed by the Government of Québec. They generally equal the excess of the Corporation’s average monthly borrowing cost over the return on these operations.

Risk premiums

When approving a financing operations, the Corporation may require corporate clients to provide a risk premium, the amount of which varies according to the nature of the risk. Stock call option premiums are derivative financial instruments and, as such, are recorded at fair value. The resulting realized and unrealized gains are carried to income under “Risk premiums – Stock call options.” Share-in-income and other premiums are recorded when they fall due under the contract.

Stock call options with a positive fair value are recorded under “Other assets.”

Gains on disposals of shares acquired upon the exercise of an option are presented in income under “Risk premiums – Stock call options.”

Financial contributions

Financial contributions consist of contributions in the form of benefits conferred to clients, non-repayable financial contributions and conditional repayable financial contributions.

Contributions in the form of benefits conferred to clients are charged to income in the year when the Corporation noted a difference between the fair value of loans as well as shares and units with repayment terms and the cash consideration and a difference between the fair value of the guarantee liability and the guarantee fees receivable.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars unless otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial contributions (cont'd)**

Financial contributions to companies are charged to income in the year when the Corporation approved the disbursement, provided the conditions are met. Financial contributions to Emploi-Québec are recognized in income in the year when the corresponding expenditure was incurred by Emploi-Québec. Financial contributions to the Ministère de l'Immigration et des Communautés culturelles are charged to income in the year when its share of the income generated by the investment is recognized. The contribution from the Government of Québec for the financial contributions it assumes is then deemed to have been earned by the Corporation and is recognized in the same year.

Subsequent recoveries of conditional repayable financial contributions are recognized in income for the current year. The applicable amount repayable to the Government of Québec is also recorded in income for the current year.

Fees to financial intermediaries

Through one of its subsidiaries, the Corporation pays fees to financial intermediaries for canvassing immigrant investors, targeting companies for referral for non-repayable financial contributions, and closing immigrant investor files.

Fees paid for canvassing immigrant investors and for targeting companies for referral are recorded in income when the financing operation has been accepted by the company (fees paid for canvassing immigrant investors were deferred on a straight-line basis and charged to income over a period representing the term of the investments, i.e., five years, for the year ended March 31, 2007). Fees for closing immigrant investor files are recorded on the closing date once the services are rendered by the financial intermediary.

Derivative financial instruments

Derivative financial instruments are classified in the held-for-trading financial assets and liabilities category. In addition to stock call options included in risk premiums, the Corporation holds other derivative financial instruments to manage the interest rate risk and exchange rate risk stemming from on- and off-balance-sheet positions. These other financial instruments are recorded at fair value, and the resulting gains or losses are recorded in "Net loss on derivative financial instruments" under "Other income." Derivative financial instruments with a positive fair value are recorded as assets in "Assets related to derivative financial instruments" under "Other assets," while those with a negative fair value are recorded as liabilities in "Liabilities related to derivative financial instruments" under "Other liabilities."

Foreign currency translation

Monetary assets and liabilities and guarantees denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. Income and expenses denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the transaction date. Exchange gains and losses are recognized in income under the items that caused the gain or loss.

Pension plans

The Corporation contributes to government multiemployer defined benefit pension plans. However, these contributions are accounted for using the accounting standards for defined contribution plans, given that the Corporation does not have sufficient information to apply defined benefit plan accounting.

The Corporation has also implemented an optional supplemental pension plan to pay retirement benefits to certain senior executives in addition to the benefits paid under the basic pension plan. The cost of the retirement benefits accumulated by these employees is determined by actuarial calculations using the defined benefit method prorated on years of service, based on Management's best estimate assumptions of the expected return on plan investments, salary escalation and retirement age of employees.

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

3. FUTURE ACCOUNTING POLICY CHANGES RESULTING FROM THE ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION**Goodwill and intangible assets**

In February 2008, the Canadian Institute of Chartered Accountants issued Section 3064, "Goodwill and Intangible Assets." This new accounting standard strengthens the approach under which assets are recognized only if they meet the definition of an asset and the asset recognition criteria. It also clarifies the application of the revenue and expense matching concept so as to eliminate the practice of recognizing as assets items that do not meet the definition of an asset or the asset recognition criteria. This standard must be applied by Investissement Québec no later than April 1, 2009.

Management believes that the application of this standard will not have an impact on its financial statements.

International financial reporting standards (IFRS)

In February 2008, the Accounting Standards Board of Canada confirmed that publicly accountable enterprises would be required to apply International Financial Reporting Standards. The Corporation will therefore have to transition towards a single set of internationally recognized standards that will replace Canadian generally accepted accounting principles. These standards must be applied by Investissement Québec no later than April 1, 2011.

The Corporation has initiated a project to assess how the application of these new standards will impact its financial statements.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

4. CARRYING VALUE OF FINANCIAL INSTRUMENTS BY CATEGORY

Financial instruments are presented on the Consolidated Balance Sheet at fair value or at amortized cost in accordance with the categories set out in the financial instrument accounting standards issued by the Canadian Institute of Chartered Accountants.

The following table provides a breakdown of the carrying value of each category of financial instrument:

	2009					
	Financial instruments to be classified as held for trading	Financial instruments designated as held for trading	Financial assets available for sale	Loans and receivables	Financial assets held to maturity	Financial liabilities other than those held for trading
						Total
FINANCIAL ASSETS						
Cash	2 972					2 972
Temporary investments	71 019					71 019
Investments			174 094	2 736 947		2 911 041
Loans				610 496		610 496
Shares		873	8 402		43 744	53 019
Units			768		626	1 394
Guarantee fees receivable				124 438		124 438
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts				957 767		957 767
Allowance for losses recoverable from the Government of Québec				622 552		622 552
Other assets	9 138			3 684		12 822
	<u>83 129</u>	<u>873</u>	<u>183 264</u>	<u>5 055 884</u>	<u>44 370</u>	<u>5 367 520</u>
FINANCIAL LIABILITIES						
Short-term borrowings						472 100
Long-term borrowings						3 853 733
Interest due and accrued						9 968
Guarantee liability						358 531
Other liabilities	35 461					25 814
	<u>35 461</u>					<u>4 720 146</u>
						<u>4 755 607</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

4. CARRYING VALUE OF FINANCIAL INSTRUMENTS BY CATEGORY (cont'd)

	2008					
	Financial instruments to be classified as held for trading	Financial instruments designated as held for trading	Financial assets available for sale	Loans and receivables	Financial assets held to maturity	Financial liabilities other than those held for trading
						Total
FINANCIAL ASSETS						
Cash	1 946					1 946
Temporary investments	97 487					97 487
Investments			154 965	2 721 834		2 876 799
Loans				560 561		560 561
Shares		3 017	8 564		43 989	55 570
Units			821		1 098	1 919
Guarantee fees receivable				115 232		115 232
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts				810 910		810 910
Allowance for losses recoverable from the Government of Québec				453 610		453 610
Other assets	3 264			4 181		7 445
	<u>102 697</u>	<u>3 017</u>	<u>164 350</u>	<u>4 666 328</u>	<u>45 087</u>	<u>4 981 479</u>
FINANCIAL LIABILITIES						
Short-term borrowings						255 800
Long-term borrowings						3 778 372
Interest due and accrued						17 747
Guarantee liability						250 683
Other liabilities	7 352					24 271
	<u>7 352</u>					<u>4 326 873</u>
						<u>4 334 225</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars unless otherwise indicated)

5. TEMPORARY INVESTMENTS

	2009	2008
Temporary investments with maturities not exceeding three months after the acquisition date:		
Bankers' acceptances, from 0.49% to 0.51%, maturing in April 2009	25 435	8 260
Deposit certificates, from 0.45% to 0.58%, maturing in April and May 2009	7 231	5 801
Discount note, 0.30%, maturing in May 2009	944	2 241
Government of Canada Treasury bills, from 0.36% to 0.49%, maturing in April 2009	6 913	37 264
Government of Ontario Treasury bills, from 0.57% to 0.67%, maturing in April and May 2009	7 241	
Government of New-Brunswick Treasury bill, from 0.61% maturing in April 2009	1 249	
Newfoundland and Labrador Treasury bill, from 0.63%, maturing in May 2009	2 742	
Treasury bills		19 756
Temporary investments with maturities exceeding three months after the acquisition date:		
Promissory term note, 2.70%, maturing in May 2009	6 579	
Government of Canada Treasury bills, from 0.37% to 0.44%, maturing between April and September 2009	7 127	16 708
Government of Ontario Treasury bills, 0.40%, maturing in August 2009	100	
Government of New-Brunswick Treasury bills, 0.77%, maturing in June 2009	99	
Newfoundland and Labrador Treasury bills, from 0.63% to 0.71% maturing between April and June 2009	5 359	
Bankers' acceptances		7 457
	<u>71 019</u>	<u>97 487</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

6. INVESTMENTS

	2009	2008
Notes receivable from the Government of Québec, from 2.84% to 4.94%, maturing between April 2009 and March 2014, face value of \$3.0 billion	2 736 947	2 721 834
Bonds and other debt securities, from 3.25% to 11.40%, maturing between June 2009 and June 2022, face value of \$81.0 million	86 698	97 708
Shares and other equity securities	87 396	57 242
Money market securities – Mutual funds		15
Units in limited partnerships ⁽¹⁾	166 006	133 687
Unlisted shares of entities acting as general partners	5	5
Entity subject to significant influence – Canadair Québec Capital S.E.N.C., at equity	25	25
	<u>3 077 077</u>	<u>3 010 516</u>

The amount of investments denominated in U.S. dollars stood at CDN\$30.5 million as at March 31, 2009 (\$23.2 million as at March 31, 2008) and the amount of investments denominated in other currencies stood at CDN\$8.2 million as at March 31, 2009 and 2008

The investments mature as follows:

Less than 1 year	706 781
From 1 to 2 years	507 071
From 2 to 3 years	503 212
From 3 to 4 years	614 776
From 4 to 5 years	486 592
From 5 to 10 years	170 428
From 10 to 20 years	791
	<u>2 989 651</u>
No maturity	87 426
	<u>3 077 077</u>

(1) At all times during the yield waiver period, certain other limited partners have a call option on certain units held by the Corporation, at an initial cost plus 6% return per year from their acquisition date. As of the 3rd fiscal year following the yield waiver period, these other limited partners also have a call option at a cost equal to the fair value or carrying value, whichever is higher.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

6. INVESTMENTS (cont'd)

Unrealized gains (losses) on available-for-sale financial assets are as follows:

	2009				2008		
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Gains net of unrealized losses	Fair value
Bonds and other debt securities	84 628	2 313	(243)	86 698	95 973	1 735	97 708
Shares and other equity securities	106 657	1 982	(21 243)	87 396	54 449	2 793	57 242
Money market securities – Mutual funds					15		15
	<u>191 285</u>	<u>4 295</u>	<u>(21 486)</u>	<u>174 094</u>	<u>150 437</u>	<u>4 528</u>	<u>154 965</u>

Available-for-sale financial assets are periodically measured to determine whether there is objective evidence of an other-than-temporary impairment. Unrealized losses on these assets are mainly attributable to fluctuations in market price or exchange rates. The Corporation has the capacity and intention to hold these assets for a sufficient amount of time to recover their fair value. At March 31, 2009, the Corporation had recognized a \$1.4 million permanent decline in value (no permanent decline in value as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

7. LOANS, LESS THE ALLOWANCE FOR LOSSES

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Loans				
Interest-bearing ^{(1) (2) (9)}				
Fixed rate ^{(3) (4)}	922	278 794	279 716	161 299
Variable rate ⁽⁵⁾	52 617	134 267	186 884	126 968
	<u>53 539</u>	<u>413 061</u>	<u>466 600</u>	<u>288 267</u>
Interest-free ^{(6) (7) (8) (9)}	697	192 566	193 263	337 720
Impaired	20 861	439 895	460 756	354 253
	<u>75 097</u>	<u>1 045 522</u>	<u>1 120 619</u>	<u>980 240</u>
Allowance for losses				
Interest-bearing loans	(7 280)	(104 990)	(112 270)	(72 631)
Interest-free loans	(166)	(25 436)	(25 602)	(86 182)
Impaired loans ⁽¹⁰⁾	<u>(15 821)</u>	<u>(356 430)</u>	<u>(372 251)</u>	<u>(260 866)</u>
	<u>(23 267)</u>	<u>(486 856)</u>	<u>(510 123)</u>	<u>(419 679)</u>
	<u>51 830</u>	<u>558 666</u>	<u>610 496</u>	<u>560 561</u>
Scheduled receipts of capital and royalties on loans, according to contractual provisions, are as follows:				
Less than 1 year	19 297	97 460	116 757	106 643
From 1 to 2 years	16 718	144 996	161 714	95 996
From 2 to 3 years	13 021	126 086	139 107	128 968
From 3 to 4 years	11 011	133 787	144 798	120 841
From 4 to 5 years	8 305	125 376	133 681	96 163
From 5 to 10 years	8 187	538 318	546 505	486 335
From 10 to 20 years	675	365 598	366 273	236 445
More than 20 years		197 709	197 709	76 900
	<u>77 214</u>	<u>1 729 330</u>	<u>1 806 544</u>	<u>1 348 291</u>
Loans past due under contractual provisions, but not impaired, are as follows :				
Less than 30 days	6 841	6 445	13 286	
From 30 to 90 days	1 263	2 433	3 696	
More than 90 days	<u>2</u>	<u>527</u>	<u>529</u>	
	<u>8 106</u>	<u>9 405</u>	<u>17 511</u>	

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

7. LOANS, LESS THE ALLOWANCE FOR LOSSES (cont'd)

- (1) The effective fixed interest rates were between 4.97% and 18.58% as at March 31, 2009 (between 4.21% and 17.19% as at March 31, 2008).
- (2) The effective variable interest rates equalled the rate for Canada Treasury bills, which was 0.35% plus a risk premium, which was between 2.31% and 17.00% as at March 31, 2009 (Treasury bill rate of 1.85% and premiums between 1.90% and 12.25% as at March 31, 2008).
- (3) The contractual fixed interest rates were between 0.75% and 15.00% as at March 31, 2009 (between 2.75% and 15.00% as at March 31, 2008).
- (4) Including \$179.8 million in contributions repayable through royalties as at March 31, 2009 (\$66.4 million as at March 31, 2008).
- (5) The Corporation's contractual variable interest rate was 4.00% plus a risk premium between -3.00% and 9.50% as at March 31, 2009 (variable rate of 6.75% and premium between -6.00% and 7.00% as at March 31, 2008).
- (6) The effective interest rates were between 4.90% and 19.18% as at March 31, 2009 (between 3.52% and 19.18% as at March 31, 2008).
- (7) These loans are interest-free for corporate clients. However, for loans whose losses are reimbursed by the Government of Québec, the government pays an interest contribution to the Corporation; this contribution is calculated according to the balance of these loans at an interest rate that is generally equal to the Corporation's average monthly borrowing cost.
- (8) No contributions repayable through royalties as at March 31, 2009 (\$92.2 million as at March 31, 2008).
- (9) Including the carrying value of loans restructured during the year, which otherwise would have been impaired, for an amount of 16.9 million as at March 31, 2009.
- (10) Including \$19.1 million in contributions repayable through royalties as at March 31, 2009 (none as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

8. SHARES

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Shares⁽¹⁾				
Non-participating with repayment terms	222	51 032	51 254	46 980
Non-participating without repayment terms				122
Publicly traded participating shares, at fair value	142	731	873	3 017
Private corporation participating shares	45	8 357	8 402	8 469
	409	60 120	60 529	58 588
Allowance for losses				
Non-participating with repayment terms	(103)	(7 407)	(7 510)	(2 991)
Non-participating without repayment terms				(27)
	(103)	(7 407)	(7 510)	(3 018)
	306	52 713	53 019	55 570
Redemption maturities for non-participating shares with repayment terms, according to contractual provisions, are as follows:				
Less than 1 year	38		38	158
From 1 to 2 years	22		22	120
From 2 to 3 years	22		22	120
From 3 to 4 years				120
From 4 to 5 years	75	75	150	105
From 5 to 10 years		45 000	45 000	45 000
More than 20 years	79	260 000	260 079	260 000
	236	305 075	305 311	305 623
Non-participating shares with repayment terms, past due under contractual provisions but for which a specific provision has not been made, are as follows:				
Less than 30 days	49		49	
From 30 to 90 days				
More than 90 days				
	49		49	

(1) Including the carrying value of shares arising from loans restructured during the year, which otherwise would have been impaired, for an amount of \$0.1 million as at March 31, 2009.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

9. UNITS

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Units				
Preferred with repayments terms	463	426	889	1 636
Without repayment terms	45	125	170	1 295
Units of a limited partnership without repayment terms		598	598	
	508	1 149	1 657	2 931
Allowance for losses				
Preferred with repayment terms	(102)	(161)	(263)	(538)
Without repayment terms				(474)
	(102)	(161)	(263)	(1012)
	406	988	1 394	1 919
Redemption maturities for units with repayment terms, according to contractual provisions, are as follows:				
Less than 1 year		51	51	133
From 1 to 2 years		166	166	51
From 2 to 3 years		51	51	166
From 3 to 4 years		60	60	51
From 4 to 5 years		38	38	65
From 5 to 10 years	994	100	1 094	1 127
From 10 to 20 years	675	200	875	875
More than 20 years		463	463	483
	1 669	1 129	2 798	2 951
Preferred units with repayment terms, past due under contractual provisions but for which a specific provision has not been made, are as follows:				
Less than 30 days		181	181	
From 30 to 90 days				
More than 90 days				
		181	181	

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

10. GUARANTEE FEES RECEIVABLE, LESS THE ALLOWANCE FOR LOSSES

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Guarantee fees receivable	16 772	127 765	144 537	126 377
Allowance for losses	(4 430)	(15 669)	(20 099)	(11 145)
	<u>12 342</u>	<u>112 096</u>	<u>124 438</u>	<u>115 232</u>

**Scheduled receipts of guarantee fees,
under contractual provisions, are
as follows:**

Less than 1 year	4 842	16 564	21 406	19 510
From 1 to 2 years	3 679	15 687	19 366	17 652
From 2 to 3 years	2 740	15 002	17 742	16 011
From 3 to 4 years	1 961	14 380	16 341	14 524
From 4 to 5 years	1 385	13 894	15 279	13 293
From 5 to 10 years	1 527	60 906	62 433	53 906
From 10 to 20 years	9	35 938	35 947	37 973
	<u>16 143</u>	<u>172 371</u>	<u>188 514</u>	<u>172 869</u>

**Guarantee fees receivable, past due under contractual
provisions, but for which a specific provision
has not been made, are as follows:**

Less than 30 days	11	4	15
From 30 to 90 days	68	22	90
More than 90 days	<u>1</u>	<u>1</u>	<u>2</u>
	<u>80</u>	<u>27</u>	<u>107</u>

Guarantee fees receivable denominated in U.S. dollars amounted to CDN\$113.3 million (\$96.6 million as at March 31, 2008) and guarantee fees receivable denominated in other currencies amounted to CDN\$0.5 million as at March 31, 2009 (\$0.5 million as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

11. GUARANTEES, LESS THE GUARANTEE LIABILITY

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Guarantees				
Loan	257 649	313 420	571 069	536 142
Financial commitment	45 890	2 016 665	2 062 555	1 698 814
	<u>303 539</u>	<u>2 330 085</u>	<u>2 633 624</u>	<u>2 234 956</u>
Guarantee liability				
Unamortized balance of initial guarantee liability				
Loan	(27 449)	(23 683)	(51 132)	(43 269)
Financial commitment	<u>(6 399)</u>	<u>(149 520)</u>	<u>(155 919)</u>	<u>(131 096)</u>
	<u>(33 848)</u>	<u>(173 203)</u>	<u>(207 051)</u>	<u>(174 365)</u>
Allowance for losses				
Loan	(29 855)	(40 601)	(70 456)	(61 074)
Financial commitment	<u>(9 471)</u>	<u>(71 553)</u>	<u>(81 024)</u>	<u>(15 244)</u>
	<u>(39 326)</u>	<u>(112 154)</u>	<u>(151 480)</u>	<u>(76 318)</u>
	<u>(73 174)</u>	<u>(285 357)</u>	<u>(358 531)</u>	<u>(250 683)</u>
	<u>230 365</u>	<u>2 044 728</u>	<u>2 275 093</u>	<u>1 984 273</u>
Guarantee balances mature as follows:				
Less than 1 year	30 355	20 081	50 436	58 643
From 1 to 2 years	38 650	53 720	92 370	45 394
From 2 to 3 years	26 935	23 186	50 121	75 341
From 3 to 4 years	32 362	26 420	58 782	60 604
From 4 to 5 years	39 387	29 839	69 226	70 055
From 5 to 10 years	134 324	254 323	388 647	355 991
From 10 to 20 years	1 526	1 922 516	1 924 042	1 568 928
	<u>303 539</u>	<u>2 330 085</u>	<u>2 633 624</u>	<u>2 234 956</u>

Guarantees denominated in U.S. dollars stood at CDN\$2.0 billion as at March 31, 2009 (\$1.7 billion as at March 31, 2008), and guarantees denominated in other currencies amounted to CDN\$36.2 million as at March 31, 2009 (\$25.7 million as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

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12. ALLOWANCE FOR LOSSES

							2009
	Loans	Shares	Units	Guarantee fees receivable	Receivables related to financing operations	Guarantees	Total
Losses not reimbursed by the Government of Québec							
Balance, beginning of year	20 422	227	454	3 292	218	33 525	58 138
Provision for losses	3 672	58	412	1858	122	12 372	18 494
Recoveries	3 709					53	3 762
Write-offs	(4 536)	(182)	(764)	(720)	(147)		(6 349)
Guarantee disbursements that did not create an asset						(7 476)	(7 476)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						852	852
Balance, end of year	23 267	103	102	4 430	193	39 326	67 421
Losses reimbursed by the government of Québec⁽¹⁾							
Balance, beginning of year	399 257	2 791	558	7 853	358	42 793	453 610
Provision for losses ⁽³⁾	111 659	4 797	698	8 489	93	75 148	200 884
Recoveries	1 950			1	1	44	1 996
Write-offs	(26 010)	(181)	(1 095)	(674)	(147)		(28 107)
Guarantee disbursements that did not create an asset						(6 753)	(6 753)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						922	922
Balance at end of year	486 856	7 407	161	15 669	305	112 154	622 552

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

12. ALLOWANCE FOR LOSSES (cont'd)

	2009						
	Loans	Shares	Units	Guarantee fees receivable	Receivables related to financing operations	Guarantees	Total
Total							
Balance, beginning of year	419 679	3 018	1 012	11 145	576	76 318	511 748
Provision for losses ⁽²⁾	115 331	4 855	1 110	10 347	215	87 520	219 378
Recoveries	5 659			1	1	97	5 758
Write-offs ⁽⁴⁾	(30 546)	(363)	(1 859)	(1 394)	(294)		(34 456)
Guarantee disbursements that did not create an asset						(14 229)	(14 229)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						1 774	1 774
Balance, end of year	510 123	7 510	263	20 099	498	151 480	689 973

The Corporation may require corporate clients to provide collateral and guarantees. Collateral generally consists of the universality of the corporate client's property, including land, buildings, equipment, machinery and furniture. The provision for losses takes into account only the value of the collateral and guarantees of companies that are insolvent or that are likely to become insolvent in the short term. This value stood at \$38.7 million as at March 31, 2009 (\$13.5 million as at March 31, 2008) for loans, shares and units and at \$22.8 million (\$24.2 million as at March 31, 2008) for guarantees. The value of collateral related to loans, shares and units in companies whose financial position meets the criteria of the Corporation's target clientele stood at \$86.2 million as at March 31, 2009 (\$81.0 million as at March 31, 2008).

- (1) Represents the "Allowance for losses recoverable from the Government of Québec" presented as assets on the balance sheet.
- (2) Including \$13.9 million in foreign exchange losses as at March 31, 2009 (\$0.4 million in foreign exchange losses as at March 31, 2008).
- (3) Including a 13.9 million recovery of foreign exchange losses as at March 31, 2009 (\$0.4 million recovery of foreign exchange losses as at March 31, 2008).
- (4) Write-offs in respect of restructured loans and write-offs of shares arising from restructured loans amounted to \$0.2 million for the year ended March 31, 2009 (\$24.0 million as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

12. ALLOWANCE FOR LOSSES (cont'd)

							2008
	Loans	Shares	Units	Guarantee fees receivable	Receivables related to financing operations	Guarantees	Total
Losses not reimbursed by the Government of Québec							
Balance, beginning of year	21 794	1 101	558	2 401	167	26 694	52 715
Provision for losses	2 834	2 010	(104)	1 471	93	7 292	13 596
Recoveries	487					(12)	475
Write-offs	(4 693)	(2 884)		(580)	(42)		(8 199)
Guarantee disbursements that did not create an asset						(1 155)	(1 155)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						706	706
Balance at end of year	20 422	227	454	3 292	218	33 525	58 138
Losses reimbursed by the government of Québec⁽¹⁾							
Balance, beginning of year	280 359	7 684	271	7 444	299	42 132	338 189
Provision for losses ⁽³⁾	153 982	5 934	287	1 001	100	9 803	171 107
Recoveries	973					1 161	2 134
Write-offs	(36 057)	(10 827)		(592)	(41)		(47 517)
Guarantee disbursements that did not create an asset						(11 053)	(11 053)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						750	750
Balance at end of year	399 257	2 791	558	7 853	358	42 793	453 610

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

12. ALLOWANCE FOR LOSSES (cont'd)

	2008						
	Loans	Shares	Units	Guarantee fees receivable	Receivables related to financing operations	Guarantees	Total
Total							
Balance, beginning of year	302 153	8 785	829	9 845	466	68 826	390 904
Provision for losses ⁽²⁾	156 816	7 944	183	2 472	193	17 095	184 703
Recoveries	1 460					1 149	2 609
Write-offs ⁽⁴⁾	(40 750)	(13 711)		(1 172)	(83)		(55 716)
Guarantee disbursements that did not create an asset						(12 208)	(12 208)
Unamortized balance of initial guarantee liability reclassified to the allowance for losses						1 456	1 456
Balance at end of year	419 679	3 018	1 012	11 145	576	76 318	511 748

13. CONTRIBUTIONS RECOVERABLE FROM THE GOVERNMENT OF QUÉBEC – BENEFITS CONFERRED TO CLIENTS AND OTHER AMOUNTS

	2009	2008
Contributions in the form of benefits conferred to clients	857 105	738 810
Other amounts	100 662	72 100
	<u>957 767</u>	<u>810 910</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

14. OTHER ASSETS

	2009	2008
Stock call options	726	603
Interest and dividends receivable on investments	1 466	1 694
Assets related to derivative financial instruments	8 412	2 661
Fixed assets, less accumulated amortization of \$5.2 million (\$4.5 million as at March 31, 2008)	2 565	2 698
Finite life intangible assets, less accumulated amortization of \$7.4 million (\$7.0 million as at March 31, 2008)	1 367	889
Administrative fees receivable – Related parties	139	275
Receivables related to financing operations, less the allowance for losses ⁽¹⁾	1 214	776
Other receivables	865	1 436
	<u>16 754</u>	<u>11 032</u>

(1) Receivables related to financing operations, less the allowance for losses.

	2009			2008
	Losses not reimbursed by the Government of Québec	Losses reimbursed by the Government of Québec	Total	Total
Receivables related to financing operations	339	1 373	1 712	1 352
Allowance for losses on receivables related to financing operations (Note 13)	(193)	(305)	(498)	(576)
	<u>146</u>	<u>1 068</u>	<u>1 214</u>	<u>776</u>

15. SHORT-TERM BORROWINGS

	2009	2008
Bankers' acceptances - Financial institutions, 0.61%, maturing in April 2009	50 000	151 400
Notes - Financial institutions, from 0.68% to 0.74%, maturing in April 2009	296 600	72 200
Notes – Government of Québec Financing Fund, from 0.70% to 0.71%, maturing in April 2009	125 500	32 200
	<u>472 100</u>	<u>255 800</u>

Under Order in Council 877-2006 dated October 3, 2006, the Corporation is authorized to contract short-term borrowings from financial institutions or from the Government of Québec Financing Fund and long-term borrowings from the Fund up to a total amount outstanding of \$1.315 million until October 31, 2010. This amount is determined as follows: for short-term borrowings, the amount of total capital outstanding; for long-term borrowings, the net proceeds of borrowings received as of the date the Order came into effect until maturity.

In addition, the Ministère du Développement économique, de l'Innovation et de l'Exportation is authorized to pay, to the Corporation, amounts required to compensate for any non-fulfillment of obligations arising from borrowings with the Government of Québec Financing Funds. The terms of this Order in Council also apply to the notes payable to the Government of Québec Financing Fund referred to in Note 16.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

15. SHORT-TERM BORROWINGS (cont'd)

As at March 31, 2009, the Corporation had contracted \$472 million in short-term borrowings, but no long-term borrowings have been contracted since October 2006, leaving borrowing room of \$843 million.

The Corporation has bank lines of credit totalling \$10 million, bearing interest at the lender's prime rate (2.5 % as at March 31, 2009; 5.25 % as at March 31, 2008), renewable annually. As at March 31, 2009 and 2008, these bank lines of credit were undrawn.

16. LONG-TERM BORROWINGS

	2009	2008
Notes – Government of Québec Financing Fund:		
- at the bankers' acceptance rate (1 month) plus 0.28%, maturing in July 2009, face value of \$175.0 million	174 954	174 817
- 4.33%, maturing in July 2010, face value of \$28.2 million	28 172	28 150
- 8.00%, maturing in December 2010, face value of \$75.6 million (effective rate of 6.07%)	77 401	78 481
- at the bankers' acceptance rate (3 months) plus 0.15%, maturing in October 2013, face value of \$100.0 million	99 687	99 618
- at the bankers' acceptance rate (1 month) plus 0.08%, maturing in October 2013, face value of \$60.0 million	59 814	59 772
- at the bankers' acceptance rate (1 month) plus 0.05%, maturing in October 2013 ⁽¹⁾ , face value of \$162.5 million	161 993	161 879
- at the bankers' acceptance rate (1 month) plus 0.12%, maturing in October 2013, face value of \$134.1 million	133 690	133 595
- at the bankers' acceptance rate (1 month) plus 0.09%, maturing in October 2013 ⁽¹⁾ , face value of \$52.5 million	52 334	52 294
- at the bankers' acceptance rate (1 month) plus 0.10%, maturing between February 2012 and May 2014, face value of \$100.0 million	99 644	99 574
- at the bankers' acceptance rate (1 month) plus 0.21%, maturing in June 2032, face value of \$47.5 million	47 192	47 179
Interest-free advances from the Government of Québec, maturing between June 2020 and January 2024	207 567	178 667
Interest-free advances from the Government of Québec without repayment terms	10 000	
Notes – Immigrant investors, interest-free, maturing between April 2009 and March 2014, face value of \$3.0 billion (effective rates of 2.84% to 4.94%) ⁽²⁾	2 701 285	2 664 346
	<u>3 853 733</u>	<u>3 778 372</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

16. LONG-TERM BORROWINGS (cont'd)

Contractual repayments of principal on long-term borrowings are as follows:

	2009
Less than 1 year	870 200
From 1 to 2 years	611 000
From 2 to 3 years	596 600
From 3 to 4 years	712 400
From 4 to 5 years	1 058 720
From 5 to 10 years	15 800
From 10 to 20 years	207 567
More than 20 years	47 500
	<u>4 119 787</u>
No maturity	<u>10 000</u>
	<u>4 129 787</u>

(1) The Corporation has an option of renewing this borrowing for a maximum period of 20 years from the maturity of the initial borrowing.

(2) Payment of the principal is guaranteed by Québec.

17. OTHER LIABILITIES

	2009	2008
Financial contributions and guarantees payable	6 306	5 345
Non-repayable financial contributions payable to Emploi-Québec	524	912
Non-repayable financial contributions payable to the Ministère de l'Immigration et des Communautés culturelles	3 436	2 511
Deferred income ⁽¹⁾	488	352
Liabilities related to derivative financial instruments	35 461	7 352
Sick leave and vacation payable (Note 34)	11 582	11 618
Other liabilities and expenses payable ⁽²⁾	15 548	15 503
	<u>73 345</u>	<u>43 593</u>

(1) Including a deferred contribution from the Ministère du Développement économique, de l'Innovation et de l'Exportation amounting to \$50 000 as at March 31, 2009 (\$50 000 as at March 31, 2008).

(2) Including \$0.5 million due to related entities under common control as at March 31, 2009 (\$0.1 million as at March 31, 2008).

18. INTEREST ON FINANCING OPERATIONS AND REVALUATION OF CONTRIBUTIONS IN THE FORM OF BENEFITS CONFERRED TO CLIENTS

	2009	2008	2007
Interest on financing operations	71 751	102 582	52 686
Revaluation of contributions in the form of benefits conferred to clients	<u>33 142</u>	<u>4 820</u>	<u> </u>
	<u>104 893</u>	<u>107 402</u>	<u>52 686</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

19. INTEREST EXPENSE

	2009	2008	2007
Interest on long-term borrowings ⁽¹⁾	30 720	48 168	47 709
Interest related to notes from immigrant investors	112 893	106 321	
Interest on short-term borrowings and bank charges ⁽²⁾	7 873	6 351	4 558
Amortization of issuance expenses on long-term borrowings ⁽¹⁾	651	685	719
Amortization of premium on long-term borrowings ⁽¹⁾	(1 129)	(1 129)	(1 129)
Interest on guarantee liability	15 887	12 266	
	<u>166 895</u>	<u>172 662</u>	<u>51 857</u>

(1) From transactions entered into with the Government of Québec Financing Fund.

(2) The interest expense on short-term borrowings made with the Government of Québec Financing Fund stood at \$1.5 million for the year ended March 31, 2009 (\$1.2 million for the year ended March 31, 2008; \$1.8 million for the year ended March 31, 2007).

20. RISK PREMIUMS – STOCK CALL OPTIONS

	2009	2008	2007
Gain on disposal of stock call options			1 526
Gain on disposal of shares resulting from the exercise of stock call options of private corporations (private and public corporations for the year ended March 31, 2007)			358
Gain (loss) resulting from the change in fair value of stock call options (unrealized gain (loss) for the year ended March 31, 2007)	2 681	852	836
	<u>2 681</u>	<u>852</u>	<u>2 720</u>

21. OTHER INCOME

	2009	2008	2007
Gain (loss) on disposal of private corporation shares and on units (private and public corporations for the year ended March 31, 2007)	(20)	755	66
Loss resulting from the change in fair value on publicly traded participating shares	(3 131)	(698)	
Dividends	10		5
Inducement fees	2 990	2 990	3 020
Certification fees	4 298	3 832	3 687
Income from other investments	6 113	8 268	6 255
Gain (loss) on available-for-sale financial assets	(890)	480	1 338
Change in unrealized depreciation on investments	(12 967)	(7 560)	(2 608)
Unrealized foreign exchange gain			149
Net loss on derivative financial instruments	(29 011)	(11 355)	(2 439)
Other income from the Government of Québec	38 129	12 221	4 428
Other income	878	1 138	1 004
	<u>6 399</u>	<u>10 071</u>	<u>14 905</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

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22. FINANCIAL CONTRIBUTIONS

	2009			2008	2007
	Not assumed by the Government of Québec	Assumed by the Government of Québec ⁽¹⁾	Total	Total	Total
Benefits conferred to clients	10 161	114 573	124 734	89 479	
Non-repayable financial contributions – Companies	46 838	57 737	104 575	85 926	64 084
Non-repayable financial contributions – Emploi-Québec	3 702		3 702	5 385	5 576
Non-repayable financial contributions –Ministère de l'Immigration et des Communautés culturelles	924		924	1 346	1 166
Conditional repayable financial contributions		(272)	(272)	(977)	(1 291)
	<u>61 625</u>	<u>172 038</u>	<u>233 663</u>	<u>181 159</u>	<u>69 535</u>

(1) Represents the “Financial contributions assumed by the Government of Québec” presented in the Consolidated Statement of Income.

23. ADMINISTRATIVE EXPENSES ⁽¹⁾

	2009	2008	2007
Salaries and employee benefits	36 601	35 711	34 091
Rent	2 995	2 881	2 780
Travel, entertainment, advertising and promotion	4 673	4 039	4 187
Professional and other fees	2 169	1 790	1 378
Amortization of fixed assets and finite life intangible assets	1 280	1 027	864
Other	5 798	4 548	4 339
	<u>53 516</u>	<u>49 996</u>	<u>47 639</u>

(1) Including \$3.5 million for related entities under common control for the year ended March 31, 2009 (\$4.2 million for the year ended March 31, 2008; \$3.7 million for the year ended March 31, 2007).

24. OTHER EXPENSES

	2009	2008	2007
Counter-guarantee fees	2 990	2 990	3 020
Share of income – Entity subject to significant influence, Canadair Québec Capital S.E.N.C.			53
Other expenses	1 086	1 016	716
	<u>4 076</u>	<u>4 006</u>	<u>3 789</u>

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

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25. CHANGE IN OPERATING ASSETS AND LIABILITIES

	2009	2008	2007
Other assets	6 347	4 062	236
Interest due and accrued on borrowings	(7 779)	(1 157)	3 530
Other liabilities	1 849	13 352	4 698
Allowance for losses	(44 764)	(49 069)	(98 106)
Allowance for losses recoverable from the Government of Québec	32 269	43 680	90 276
	<u>(12 078)</u>	<u>10 868</u>	<u>634</u>

26. DERIVATIVE FINANCIAL INSTRUMENTS

When authorizing financing operations, the Corporation may require corporate clients to provide a risk premium in the form of stock call options, the amount of which varies with the nature of the risk. The Corporation also enters into futures contracts for the purchase or sale of financial instruments at set prices and future dates. Futures contracts are traded according to standardized amounts on organized exchanges and are subject to cash margins calculated on a daily basis.

The following table shows the fair value of the Corporation's portfolio of derivative financial instruments as at March 31, 2009, as represented by unrealized gains in the case of stock call options and by unrealized gains or losses with regard to futures contracts.

	2009		2008
	Positive	Negative	Net amount
Stock call options	726		726
Stock put option	1 472		1 472
Foreign exchange options	6 940		6 940
Interest rate swaps		35 461	(35 461)
Interest rate futures		375	(375)
	<u>9 138</u>	<u>35 836</u>	<u>(26 698)</u>
			<u>(4 744)</u>

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is intended to reflect the approximate amount for which financial instruments could be traded in an arm's length transaction between willing parties who are under no compulsion to act in the normal course of business. The best indication of fair value is market price.

The Corporation uses market prices prevailing on the balance sheet date, when they are available, to determine the fair value of financial instruments. When there are no markets or when the markets are not considered sufficiently liquid, the Corporation measures fair value using valuation methods and assumptions. Given the role that judgment plays in the application of many acceptable valuation and estimation techniques for calculating fair value, these techniques are not necessarily comparable among different entities. Fair value is based on market conditions at a given point in time and therefore does not necessarily reflect the future fair value of the instruments. It would not be interpreted as a realizable amount if the instruments were to be settled immediately.

The following table provides the carrying values and estimated fair values of balance sheet financial instruments that were established using the valuation methods and assumptions described below. The table does not present the fair values of assets and liabilities that are not considered financial instruments such as fixed assets, finite life intangible assets, deferred benefits conferred by immigrant investors, and those not covered by the recommendations of CICA Handbook Section 3862, "Financial Instruments – Disclosures."

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

	2009			2008		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets						
Cash, bank overdraft and temporary investments	73 991	73 980	(11)	99 433	99 433	
Investments	3 077 052	3 211 256	134 204	3 010 491	3 072 929	62 438
Loans, less the allowance for losses	610 496	611 170	674	560 561	729 817	169 256
Shares and units	54 413	51 504	(2 909)	57 489	83 737	26 248
Guarantee fees receivable, less the allowance for losses	124 438	117 445	(6 993)	115 232	123 198	7 966
Allowance for losses and contributions recoverable from the Government of Québec - Benefits conferred to clients and other amounts	1 580 319	2 662 219	1 081 900	1 264 520	1 214 770	(49 750)
Stock call options	726	726		603	603	
Assets related to derivative financial instruments	8 412	8 412		2 661	2 661	
Other assets	3 684	3 684		4 181	4 181	
	<u>5 533 531</u>	<u>6 740 396</u>	<u>1 206 865</u>	<u>5 115 171</u>	<u>5 331 329</u>	<u>216 158</u>
Liabilities						
Borrowings	4 325 833	4 469 959	(144 126)	4 034 172	4 105 794	(71 622)
Guarantee liability	358 531	1 477 029	(1 118 498)	250 683	392 357	(141 674)
Liabilities related to derivative financial instruments	35 461	35 461		7 352	7 352	
Other liabilities	35 782	35 782		42 018	42 018	
	<u>4 755 607</u>	<u>6 018 231</u>	<u>(1 262 624)</u>	<u>4 334 225</u>	<u>4 547 521</u>	<u>(213 296)</u>
			<u>(55 759)</u>			<u>2 862</u>

The fair values of balance sheet financial instruments were estimated using the following methods and assumptions:

Cash, temporary investments, bank overdraft, short-term borrowings, other assets and other liabilities

Cash, temporary investments with maturities not exceeding three months after the acquisition date, short-term borrowings, and other assets and other liabilities are recorded at fair value. The fair value is considered to be equal to carrying value due to their short-term maturities. Temporary investments with maturities exceeding three months after the acquisition date are recorded at fair value, which is determined using market prices, established as the bid price on the balance sheet date.

The fair value of interest due and accrued maturing in more than three months is estimated by discounting cash flows using market interest rates for borrowings with similar terms and credit risks.

Investments

Investments in securities are recorded at fair value, which is determined using market prices, established according to bid price on the balance sheet date. The fair value of notes receivable from the Government of Québec is estimated by discounting cash flows using market interest rates for investments with similar terms and credit risks.

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

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27. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**Loans**

The fair value of the loan portfolio is based on the assessment of interest rate risk and credit risk. The fair value of loans is estimated by discounting cash flows using prevailing market interest rates for new loans with substantially the same terms. For impaired loans, the fair value is deemed to be equal to the carrying value, in accordance with the valuation methods described in Note 2 under "Loans."

Shares and units

The fair value of shares and units is based on market prices, established according to bid prices on the balance sheet date, when they are available. The fair value of non-participating shares and preferred units with repayment terms is estimated by discounting cash flows using prevailing market interest rates for new non-participating shares and preferred units with substantially the same terms. With respect to other equity securities that are not traded on organized markets, the fair value, since it cannot be reasonably estimated, is deemed to be equal to the carrying value, which according to Management, did not decline in value.

Guarantee fees receivable

The fair value of guarantee fees receivable is estimated by discounting cash flows at prevailing market interest rates for new receivables with substantially the same terms.

Allowance for losses and contributions recoverable from the Government of Québec – Benefits conferred to clients

The fair value of the allowance for losses on financing operations for which losses are assumed by the Government of Québec and contributions on these losses recoverable from the Government of Québec in the form of benefits conferred to clients corresponds to the difference between the face value and the fair value of loans, shares and units and between the fair value of guarantee fees receivable and the fair value of the initial guarantee liability.

Derivative financial instruments

Derivative financial instruments are recorded at fair value, which is determined using market prices, on the balance sheet date, when they are available. With respect to stock call options that are not traded on organized markets, the fair value is based on the carrying value of the company concerned.

Long-term borrowings

The fair value of fixed-rate long-term borrowings is based on market prices for debt securities with similar terms and credit risks. The fair value of variable-rate long-term borrowings is deemed to be equal to the carrying value.

Guarantee liability

The fair value of the guarantee liability is based on the assessment of interest rate risk and credit risk. It is estimated by discounting cash flows at guarantee fee rates and prevailing market interest rates for new guarantees with substantially the same terms. For guarantees in the case of insolvent companies or where insolvency seems likely in the short term, fair value is equal to the allowance for losses, according to the valuation methods described in Note 2 under "Guarantees."

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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28. INTEREST RATE SENSITIVITY

The Corporation offers a range of financial instruments, the cash flows of which are sensitive to interest rate fluctuations. Interest rate risk stems from the mismatching of various cash flows, both on-and off-balance-sheet, and its impact on the Corporation's financial results depends on interest rate fluctuations.

The Corporation's sensitivity to interest rate fluctuations as at March 31 was as follows:

							2009
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates	Total
Assets							
Cash and temporary investments		70 872	147			2 972	73 991
Effective interest rate		0,7 %	0,4 %				
Investments		155 357	551 425	2 111 651	5 212	253 432	3 077 077
Effective interest rate		4.4 %	4.1 %	4.1 %	5.2 %		
Interest-free loans	5 340	624	3 829	81 968	101 502		193 263
Effective interest rate		10.3 %	9.8 %	8.5 %	7.1 %		
Other loans, shares, units, and guarantee fees receivable	167 178	72	121	8 366	343 006	615 336	1 134 079
Effective interest rate		10.3 %	9.4 %	10.3 %	9.2 %		
Allowance for losses on loans, shares, units, and guarantee fees receivable						(537 995)	(537 995)
Contribution in the form of benefits conferred to clients and other amounts recoverable from the Government of Québec						957 767	957 767
Allowance for losses recoverable from the Government of Québec						622 552	622 552
Other assets						16 754	16 754
	172 518	226 925	555 522	2 201 985	449 720	1 930 818	5 537 488

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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28. INTEREST RATE SENSITIVITY (cont'd)

	2009					
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates
						Total
Liabilities						
Interest-free borrowings		151 122	529 795	2 010 973	9 395	217 567
Effective interest rate		4,4 %	4,1 %	4,1 %	2,8 %	
Interest-bearing borrowings		1 301 408		105 573		
Effective interest rate		0,9 %		5,6 %		
Deferred benefits conferred by immigrant investors						211 875
Other liabilities		(93 465)			128 926	406 383
Equity						557 936
		1 359 065	529 795	2 116 546	138 321	1 393 761
Sensitivity gap	172 518	(1 132 140)	25 727	85 439	311 399	537 057
Guarantees ⁽¹⁾						2 275 093
Sensitivity gap						(2 275 093)
Total 2009	<u>172 518</u>	<u>(1 132 140)</u>	<u>25 727</u>	<u>85 439</u>	<u>311 399</u>	<u>(1 738 036)</u>
						2008
	Variable rate	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rates
						Total
Balance sheet financial instruments	133 395	(847 933)	26 452	108 398	308 290	271 398
Off-balance-sheet financial instruments						(1 984 273)
Total 2008	<u>133 395</u>	<u>(847 933)</u>	<u>26 452</u>	<u>108 398</u>	<u>308 290</u>	<u>(1 712 875)</u>

The effective interest rate represents the weighted average effective interest rate taking into consideration the rate modification date set out in the contract or the maturity date, whichever comes first.

(1) Guarantees are presented at face value.

29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to a variety of risks, in particular credit risk, market risk and liquidity risk. The risk management and risk control strategies, policies and processes incorporated throughout the operations ensure an optimal risk-return relationship within the limits set by the Corporation.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)

Credit risk

Credit risk stems mainly from the losses the Corporation could incur or the costs it could be required to assume as a result of a third party's inability to honour its financial commitments. In this respect, the Corporation has developed an integrated credit risk management approach, the purpose of which is to create a sound credit management environment and to make sure responsibilities are shared throughout the Corporation.

Decisions to grant credit are based mainly on the results of the risk assessment. In addition to the client's credit standing, decisions are based on factors such as available guarantees and whether the transaction is compliant with policies, standards and procedures. Every decision to grant credit stems from different authorities within the Corporation, depending on the size and degree of risk of the credit operation.

Financing operations undergo systematic monitoring, which involves, in particular, obtaining and analyzing the annual financial statements of each company, producing an annual report on the evolution of each company, periodically reviewing the credit risk rating in order to determine the provision for losses, and updating the value of the collateral.

To do so, the Corporation uses a system to rate companies according to the financial risk they represent. The system makes an initial risk assessment and matches pricing to risk level. In addition, it makes it easier to follow up on financing operations and to monitor companies in difficulty.

Maximum exposure to credit risk

The maximum exposure to credit risk at the balance sheet date without taking into account any collateral held or other credit enhancements to credit risk was as follows:

	<u>2009</u>
On balance sheet	
Temporary investments	71 019
Investments	3 077 077
Loans	610 496
Shares	53 019
Units	1 394
Guarantee fees receivable	124 438
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts	957 767
Allowance for losses recoverable from the Government of Québec	622 552
Other financial assets	<u>12 822</u>
	<u>5 530 584</u>
Off balance sheet	
Guarantees	2 275 093
Loan commitments – Agreements accepted by clients	361 776
Unit commitments – Agreements accepted by clients	24 402
Guarantee commitments – Agreements accepted by clients	351 089
Investment commitments	<u>117 491</u>
	<u>3 129 851</u>
	<u><u>8 660 435</u></u>

Credit risk concentration

Credit risk concentration is the probability that a significant portion of the outstanding financing operations is confined to a subset of the Corporation's portfolio. Such concentration could make the Corporation vulnerable to difficulties experienced by a corporate client, an industry, a specific region or a financial product. The Corporation has set up a reporting system to monitor the portfolio's profile and determine how financing operations are distributed according to program, industry, risk category and region.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)Credit risk concentration

As at March 31, 2009, credit risk concentration was as follows:

	Loans, less the allowance for losses	Shares, less the allowance for losses	Units, less the allowance for losses
By sector:			
Primary sector companies	7 572	84	502
Secondary sector companies			
Transportation equipment	191 947		
Primary processing metals and metal products	30 965	43 938	
Wood products	105 349		
Paper	35 828	15	
Other	195 902	8 236	
	559 991	52 189	
Tertiary sector companies	42 933	746	892
	610 496	53 019	1 394
			Total 2009
With the government of Québec:			
Notes receivable from the Government of Québec			2 736 947
Loans, shares, units, guarantee fees and receivables related to financing operations, less the allowance for losses			725 531
Guarantees, less the guarantee liability			2 044 728
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts			957 767
Allowance for losses recoverable from the Government of Québec			622 552
Financing commitments - Agreements accepted by clients:			
Loans and units			373 558
Guarantees			248 221
			7 709 304

Guarantee fees receivable, less the allowance for losses	Receivables related to financing operations, less the allowance for losses	Guarantees, less the allowance for losses	Loan commitments: Agreements accepted by clients	Guarantee commitments: Agreements accepted by clients	Total
<u>193</u>	<u>7</u>	<u>5 050</u>	<u>773</u>	<u>4 071</u>	<u>18 252</u>
102 747	1 008	1 837 290	195 663	122 320	2 450 975
2 434	16	39 661	11 812	18 919	147 745
1 272	7	32 752	46 996	19 523	205 899
2 540	12	33 297	25 044	18 110	114 846
<u>7 436</u>	<u>29</u>	<u>116 314</u>	<u>53 500</u>	<u>64 857</u>	<u>446 274</u>
<u>116 429</u>	<u>1 072</u>	<u>2 059 314</u>	<u>333 015</u>	<u>243 729</u>	<u>3 365 739</u>
<u>7 816</u>	<u>135</u>	<u>210 729</u>	<u>52 390</u>	<u>103 289</u>	<u>418 930</u>
<u>124 438</u>	<u>1 214</u>	<u>2 275 093</u>	<u>386 178</u>	<u>351 089</u>	<u>3 802 921</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)Credit risk concentration

The credit risk concentration as at March 31, 2008 was as follows:

	Loans, less the allowance for losses	Shares, less the allowance for losses	Units, less the allowance for losses
By sector:			
Primary sector companies	7 244	1 255	867
Secondary sector companies			
Transportation equipment	200 783		
Primary processing metals and metal products	35 345	44 845	
Wood products	57 221		50
Paper	73 793	8 012	
Other	134 169	975	
	501 311	53 832	50
Tertiary sector companies	52 006	483	1 002
	560 561	55 570	1 919
			Total 2009
With the government of Québec:			
Notes receivable from the Government of Québec			2 721 834
Loans, shares, units, guarantee fees and receivables related to financing operations, less the allowance for losses			675 439
Guarantees, less the guarantee liability			1 761 903
Contributions recoverable from the Government of Québec – Benefits conferred to clients and other amounts			810 910
Allowance for losses recoverable from the Government of Québec			453 610
Financing commitments - Agreements accepted by clients:			
Loans			279 980
Guarantees			621 239
			7 324 915

Guarantee fees receivable, less the allowance for losses	Receivables related to financing operations, less the allowance for losses	Guarantees, less the allowance for losses	Loan commitments: Agreements accepted by clients	Guarantee commitments: Agreements accepted by clients	Total
<u>152</u>	<u>7</u>	<u>9 802</u>	<u>605</u>	<u>3 635</u>	<u>23 567</u>
93 068	463	1 549 552	84 646	512 922	2 441 434
2 677	27	39 568	94 841	17 995	235 298
1 964	31	39 573	20 681	12 976	132 496
162	1	3 222	8 821	639	94 650
<u>8 147</u>	<u>25</u>	<u>133 714</u>	<u>51 093</u>	<u>66 063</u>	<u>394 186</u>
<u>106 018</u>	<u>547</u>	<u>1 765 629</u>	<u>260 082</u>	<u>610 595</u>	<u>3 298 064</u>
<u>9 062</u>	<u>222</u>	<u>208 842</u>	<u>27 833</u>	<u>101 661</u>	<u>401 111</u>
<u>115 232</u>	<u>776</u>	<u>1 984 273</u>	<u>288 520</u>	<u>715 891</u>	<u>3 722 742</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)

Market risk

Market risk is the risk the Corporation faces if interest rates, exchange rates and market prices fluctuate and result in gains or losses.

Interest rate risk

Interest rate movements cause changes in income and interest expenses as well as in the fair value of the financial instruments held by the Corporation. The impact depends on several factors, including asset and liability matching and interest rate curves. To manage interest rate risk, the Corporation uses natural asset and liability matching strategies, in particular by contracting its borrowings in an appropriate fashion. In addition, it synthetically completes the matching of the interest rate structures of the assets and liabilities using derivative products traded on financial markets. This activity is managed under an internal interest rate risk management policy.

The table below shows how an immediate and sustained 100-basis-point increase or decrease in the interest rate (interest rate floor of 0% for decrease), assuming that no further hedging is undertaken, would potentially impact net income and comprehensive income (loss). The amounts shown do not include the impact of the provision for losses expense.

Interest rate sensitivity:

	<u>2009</u>
100-basis-point increase in interest rate	
Impact on net income	1 803
Impact on comprehensive income (loss)	(2 679)
100-basis-point decrease in interest rate	
Impact on net income	(2 089)
Impact on comprehensive income (loss)	2 772

Currency risk

The Corporation is exposed to currency risk because a significant portion of the loan guarantees and/or financial commitments granted by the Corporation (as well as the related guarantee fees) are denominated in currencies other than the Canadian dollar. However, because a significant portion of the guarantees are related to files for which the losses are assumed by the government, the impact on the Corporation's net income is considered insignificant. To mitigate the remaining exchange rate risk, the Corporation proceeds on a case-by-case basis using a derivative product specific to each financing contract, thereby ensuring additional protection. In addition, a portion of its investments is denominated in currencies other than the Canadian dollar. In this regard, the investment policy of Investissement Québec and its subsidiaries sets limits for each category of asset in terms of gross risk and net risk (after considering any hedging strategies).

The table below shows how a 10% appreciation or depreciation of the Canadian dollar versus the currencies in which the investments are held would potentially impact net income and comprehensive income (loss).

Exchange rate sensitivity:

	<u>2009</u>
10% appreciation of the Canadian dollar	
Impact on net income	(1 554)
Impact on comprehensive income (loss)	(3 969)
10% depreciation of the Canadian dollar	
Impact on net income	6 008
Impact on comprehensive income (loss)	3 969

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)

Market risk (cont'd)

Stock market risk

Stock market risk is the risk of stock market fluctuations causing a decline in value of the portfolio of publicly traded shares held by the Corporation. This risk is managed through the investment policy, which sets limitations aimed at maximizing portfolio diversification.

The table below shows how an immediate and sustained 20% rise or fall in stock market prices would potentially impact net income and comprehensive income (loss).

Stock market sensitivity:

	<u>2009</u>
20% increase in stock market prices	
Impact on net income	
Impact on comprehensive income (loss)	17 479
20% decrease in stock market prices	
Impact on net income	
Impact on comprehensive income (loss)	(17 479)

Liquidity risk

Liquidity risk is associated with the Corporation's ability to obtain the necessary funds to honour its financial commitments. Liquidity risk also stems from difficulties the Corporation might experience in liquidating, where appropriate, certain assets acquired in the normal course of business.

Liquidity risk is managed by way of an overall financing policy. In addition, the Corporation ensures that the largest cash inflows are matched with cash outflows. The Corporation maintains diverse sources of financing and has a borrowing program for short- and long-term loans with the Ministère des Finances du Québec, as administrator of the Financing Fund. Furthermore, it has short-term borrowing agreements with financial institutions. In July 2008, the Corporation entered into two irrevocable financing agreements with financial institutions for a total amount that could reach \$200 million. The amounts authorized under these programs and agreements are designed to cover contingencies.

The table below shows the contractual maturities of financial liabilities as well as off-balance-sheet obligations as at March 31, 2009. The amounts shown reflect both capital and interest, where applicable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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29. RISK MANAGEMENT RELATED TO FINANCIAL INSTRUMENTS (cont'd)**Liquidity risk (cont'd)**

The contractual maturities of financial liabilities as at March 31, 2009 were as follows:

	Less than 1 year	From 1 to 2 years	From 2 to 3 years
Balance sheet financial instruments			
Short-term borrowings	472 185		
Long-term borrowings	894 953	633 305	611 637
Guarantee liability ⁽¹⁾			
Other liabilities	25 703	6 192	5 033
	<u>1 392 841</u>	<u>639 497</u>	<u>616 670</u>
Off-balance-sheet obligations			
Financing and investment commitments	492 068	188 982	106 999
Guarantees ⁽¹⁾			
	<u>492 068</u>	<u>188 982</u>	<u>106 999</u>
	<u>1 884 909</u>	<u>828 479</u>	<u>723 669</u>

(1) The amounts related to these liabilities do not have specific maturities and may be disbursed at any time as of the balance sheet date.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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<u>From 3 to 4 years</u>	<u>From 4 to 5 years</u>	<u>From 5 to 10 years</u>	<u>More than 10 years</u>	<u>No fixed maturity</u>	<u>Total</u>
					472 185
726 148	1 071 873	23 833	276 687	10 000	4 248 436
				358 531	358 531
<u>4 842</u>	<u>4 505</u>	<u>11 224</u>	<u>(2 198)</u>	<u>17 631</u>	<u>72 932</u>
730 990	1 076 378	35 057	274 489	386 162	5 152 084
70 747	12 952	6 266	592 888	789 533	2 260 435
				2 275 093	2 275 093
<u>70 747</u>	<u>12 952</u>	<u>6 266</u>	<u>592 888</u>	<u>3 064 626</u>	<u>4 535 528</u>
<u>801 737</u>	<u>1 089 330</u>	<u>41 323</u>	<u>867 377</u>	<u>3 450 788</u>	<u>9 687 612</u>

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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30. FINANCING AND INVESTMENT COMMITMENTS

The Corporation's financing commitments, entered into in the normal course of business, are shown in the table below and are grouped into two categories. The first consists of financing agreements authorized by the Corporation that have not yet been accepted by clients. The second consists of financing agreements accepted by clients, i.e., amounts not disbursed on loans, shares and units; amounts for which disbursement has not been authorized for financial contributions; and amounts that have not yet been used for guarantees. In addition, under agreements with partners, the Corporation has undertaken to invest, through units of limited partnerships, in the FIER-Regions, in the mutual funds of FIER Partners and in the Support Funds.

The total value of these commitments does not necessarily represent future cash requirements, as several will expire or may be cancelled without resulting in an outflow of cash.

The amounts of the commitments are as follows:

	2009		2008	
	Losses not reimbursed and contributions not assumed by the Government of Québec	Losses reimbursed and contributions assumed by the Government of Québec	Total	Total
Financing commitments				
Authorized agreements awaiting acceptance by clients				
Loans	9 073	86 605	95 678	167 893
Guarantees	18 271	262 143	280 414	24 803
Financial contributions	1 980	52 974	54 954	48 660
	29 324	401 722	431 046	241 356
Agreements accepted by clients				
Loans ^{(1) (2) (3) (4)}	12 620	349 156	361 776	288 520
Units		24 402	24 402	
Guarantees	102 868	248 221	351 089	715 891
Financial contributions	152 446	786 880	939 326	257 448
	267 934	1 408 659	1 676 593	1 261 859
	297 258	1 810 381	2 107 639	1 503 215
Investment commitments				
Units of limited partnerships				
FIER-Regions		45 935	45 935	85 097
FIER Partners, L.P.		71 556	71 556	77 876
Support Funds				2 579
		117 491	117 491	165 552
	297 258	1 927 872	2 225 130	1 668 767

There were no commitments denominated in U.S. dollars as at March 31, 2009 (\$1.0 million in Canadian dollars as at March 31, 2008).

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

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30. FINANCING AND INVESTMENT COMMITMENTS (cont'd)

- (1) Including \$195.9 million for which the fixed contractual interest rates ranged from 1.75% to 9.22% with a term of 8 to 30 years.
- (2) Including \$58.6 million for which the interest that rates are variable.
- (3) Including \$98.8 million bearing no interest.
- (4) Including \$8.5 million for which the interest rates were not determined as at March 31, 2009.

31. OTHER COMMITMENTS

The Corporation has undertaken to pay fees totalling \$35.3 million as at March 31, 2009 (\$43.4 million as at March 31, 2008) to financial intermediaries for canvassing immigrant investors, targeting companies for referral, and closing immigrant investor files.

The Corporation has further undertaken to pay financial contributions under the "Employment Integration Program for Immigrants and Visible Minorities" administered by Emploi-Québec and intended for businesses. As at March 31, 2009 and 2008, the Corporation had no commitments in respect of these contributions.

32. CAPITAL MANAGEMENT

For capital management purposes, the Corporation's capital consists of its equity. As at March 31, 2009, the Corporation's capital totalled \$557.9 million (\$548.9 million as at March 31, 2008).

The capital objectives have not changed since the previous year. Surpluses, if any, are retained by the Corporation unless the government decides otherwise. The Corporation is not subject to any other capital requirements established by an external source.

33. PENSION PLANS

The employees of Investissement Québec participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These multiemployer plans have defined benefits and include retirement and death coverage. As at January 1, 2008, Investissement Québec's contribution rate for the RREGOP rose from 7.06% to 8.19% of covered payroll, whereas the contribution rate for the PPM rose from 7.78% to 10.54%. The contribution rate for the CSSP remained at 7.25%. Investissement Québec's obligations under these government plans are limited to employer contributions. Investissement Québec's contributions charged to income for the year amounted to \$1.9 million (\$1.5 million for the year ended March 31, 2008 and \$1.4 million for the year ended March 31, 2007).

The employer's liabilities under the supplemental pension plan consists of fully assuming benefits when beneficiaries retire. Accordingly, no contributions are paid by the employees or the employer. As at March 31, 2009, the employer's obligation amounted to \$1.4 million (\$1.3 million as at March 31, 2008) and is reflected in "Other liabilities". The Corporation charged \$0.1 million to income for the year ended March 31, 2009 (\$0.1 million as at March 31, 2008; \$1.1 million as at March 31, 2007). The significant actuarial assumptions used by the Corporation to assess its accrued benefit obligations are as follows: an expected rate of return for the plan of 5.75% and a rate of compensation increase of 3.50%.

The most recent actuarial valuation was completed on March 1, 2009. The next valuation is scheduled for March 1, 2010.

34. SICK LEAVE AND VACATION TIME PAYABLE

	2009	2008
Balance, beginning of year	11 618	10 887
Expense for the year	3 526	3 854
Amounts paid during the year	(3 562)	(3 123)
Balance, end of year	11 582	11 618

INVESTISSEMENT QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

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35. CONTINGENCIES

Under Order in Council 1393-2001 issued by the Government of Québec and dated November 21, 2001, 9109-3294 Québec inc., a subsidiary of Investissement Québec, acquired a parcel of contaminated land in December 2001 for \$1. Investissement Québec and a third party guarantee the environmental liability of this land. In this respect, the Corporation recorded a \$6 million liability as at March 31, 2009 (\$7 million as at March 31, 2008). Furthermore, under the environmental regulation, the Corporation could be required to carry out additional decontamination work. As at March 31, 2009, the Corporation was unable to estimate the cost of such potential work. However, under its incorporating act, any potential losses stemming from this contingent liability will be assumed by the Government of Québec.

Various judicial and extrajudicial proceedings instituted by or against the Corporation are pending. In the Corporation's opinion, the outcome of these proceedings will not have a significant impact on its financial position or the operating results.

36. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all the departments and special funds as well as to all agencies and corporations that are controlled directly or indirectly by the Government of Québec or are subject to either joint control or significant common influence by the Government of Québec. The Corporation's business transactions with these related parties were carried out in the normal course of business and under usual business conditions. All of these transactions have been recorded at the exchange amount and disclosed separately in the financial statements.

37. COMPARATIVE FIGURES

Certain figures from fiscal years 2007 and 2008 have been reclassified to conform to the 2009 presentation. The figures from fiscal 2007 come from financial statements audited by the Auditor General of Québec. Samson Bélair/Dolette & Touche s.e.n.c.r.l was appointed co-auditor of the financial statements of the Corporation for fiscal years 2008 and 2009, under Order in Council 592-2007 dated August 1, 2007.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

38. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2009						2008
	Investis- sment Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Assets							
Cash	1 958	862	10	142		2 972	1 946
Temporary investments	8 379	45 501	17 139			71 019	97 487
Investments		2 911 041	166 011	25		3 077 077	3 010 516
Loans, less the allowance for losses	610 496					610 496	560 561
Shares	53 019					53 019	55 570
Units	1 394					1 394	1 919
Guarantee fees receivable, less the allowance for losses	124 438					124 438	115 232
Contributions recoverable from the Government of Québec - Benefits conferred to clients and other amounts	951 583			6 184		957 767	810 910
Allowance for losses recoverable from the Government of Québec	622 552					622 552	453 610
Investments in subsidiaries, recorded using the equity method	14 941				(14 941)		
Advances to subsidiaries	207 995				(207 995)		
Other assets	16 286	1 466	49	250	(1 297)	16 754	11 032
	2 613 041	2 958 870	183 209	6 601	(224 233)	5 537 488	5 118 783

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

38. BALANCE SHEETS OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2009						2008
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Liabilities and equity							
Liabilities							
Short-term borrowings	472 100					472 100	255 800
Long-term borrowings	1 152 448	2 701 285				3 853 733	3 778 372
Interest due and accrued on borrowings	9 968					9 968	17 747
Advances from the parent company			207 767	228	(207 995)		
Guarantee liability	358 531					358 531	250 683
Deferred benefits conferred by immigrant investors		211 875				211 875	223 670
Other liabilities	62 058	5 677	695	6 212	(1 297)	73 345	43 593
	2 055 105	2 918 837	208 462	6 440	(209 292)	4 979 552	4 569 865
Equity							
Initial equity and share capital	32 944	1	1	3	(5)	32 944	32 944
Retained earnings (deficit)	542 172	57 212	(25 254)	158	(32 116)	542 172	511 446
Accumulated other comprehensive income (loss)	(17 180)	(17 180)			17 180	(17 180)	4 528
	557 936	40 033	(25 253)	161	(14 941)	557 936	548 918
	2 613 041	2 958 870	183 209	6 601	(224 233)	5 537 488	5 118 783
Guarantees, less the guarantee liability	2 275 093					2 275 093	1 984 273

(1) Eliminations related to balances and intercompany transactions and reclassifications.

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

39. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES

	2009						2008
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Interest income							
Interest on financing operations an revaluation of contributions in the form of benefits conferred to clients	104 893					104 893	107 402
Interest on notes receivable from the Government of Québec		114 062				114 062	107 154
Interest on cash and temporary investments	97	1 425	344			1 866	1 337
	104 990	115 487	344			220 821	215 893
Interest expense	54 002	112 893				166 895	172 662
Net interest income	50 988	2 594	344			53 926	43 231
Other income							
Benefits conferred by immigrant investors		105 749				105 749	109 790
Guarantee fees	36 945					36 945	35 187
Risk premiums Stock call options	2 681					2 681	852
Share-in-income and other premiums	4 234					4 234	6 046
Commitment fees	7 268					7 268	6 373
Fees – Related company, IQ Immigrants Investisseurs inc.	1 505	(1 699)			194		
Other income	14 123	5 223	(12 967)	20		6 399	10 071
	66 756	109 273	(12 967)	20	194	163 276	168 319
Amounts carried forward	117 744	111 867	(12 623)	20	194	217 202	211 550

INVESTISSEMENT QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars unless otherwise indicated)

39. STATEMENTS OF INCOME OF INVESTISSEMENT QUÉBEC AND ITS SUBSIDIARIES (cont'd)

	2009						2008
	Investis- sement Québec non- consolidated	IQ Immigrants Investisseurs inc.	IQ FIER inc.	Other subsidiaries	Eliminations & reclassi- fications ⁽¹⁾	Consolidated total	Consolidated total
Amounts brought forward	117 744	111 867	(12 623)	20	194	217 202	211 550
Provision							
Provision for losses	219 378					219 378	184 703
Provision for losses recoverable from the Government of Québec	(200 884)					(200 884)	(171 107)
	18 494					18 494	13 596
Non-interest expenses							
Financial contributions	182 182	51 464		17		233 663	181 159
Financial contributions assumed by the Government of Québec	(172 021)			(17)		(172 038)	(125 119)
Fees to financial intermediaries		48 765				48 765	50 540
Fees for the management of financial contribution files - Parent company							
Administrative expenses	52 474	482	646		(86)	53 516	49 996
Other expenses	3 265	531			280	4 076	4 006
	65 900	101 242	646		194	167 982	160 582
Net income before share of income of subsidiaries	33 350	10 625	(13 269)	20		30 726	37 372
Share of income of subsidiaries	(2 624)				2 624		
Net income	30 726	10 625	(13 269)	20	2 624	30 726	37 372

(1) Eliminations related to balances and intercompany transactions and reclassifications.

INVESTISSEMENT QUÉBEC

DECLARATION OF RESPONSIBILITY FOR FINANCIAL INFORMATION

Management assumes responsibility for the preparation and presentation of the consolidated financial statements of Investissement Québec and for the other information disclosed in this annual report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

All financial information appearing in this annual report is consistent with that contained in the financial statements.

The Corporation's accounting system as well as its internal controls and procedures are designed to ensure the reliability of financial data and to provide reasonable assurance that the Corporation's assets are adequately protected against any loss or unauthorized use.

The financial statements have been approved by the Board of Directors, which oversees Management's responsibilities for financial reporting. The Board exercises its responsibilities through the Audit Committee. This Committee meets with Management and the auditors, reviews the financial statements and recommends their approval to the Board. The Audit Committee also receives copies of the audit reports on the optimization of resources and compliance with laws and regulations.

Jacques Daoust
President and Chief Executive Officer

Renaud Gilbert, CA
Director, Finance and Treasury
and Chief Financial Officer

AUDITOR'S REPORT

To the National Assembly

We have audited the consolidated balance sheet of Investissement Québec as at March 31, 2009, and the consolidated statements of income, comprehensive income, change in equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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. These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009, and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, these principles have been applied, except for the changes regarding capital management and financial instrument disclosures, as explained in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Samson Bélair/Dolette & Touche s.e.n.c.r.l.¹
Chartered Accountants

¹CA auditor permit No. 16162

Québec City, May 25, 2009

IQ FIER INC.
(L.R.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	10	1
Short-term investments (Note 4)	17 139	23 709
Investments (Note 5)	166 011	133 692
Other accounts receivable	<u>49</u>	<u>192</u>
	<u>183 209</u>	<u>157 594</u>
LIABILITY AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Advances from parent company, interest-free, repayable between June 2020 and January 2024	207 767	168 867
Fees payable to parent company	<u>695</u>	<u>711</u>
	<u>208 462</u>	<u>169 578</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	1	1
Cumulated deficit	<u>(25 254)</u>	<u>(11 985)</u>
	<u>(25 253)</u>	<u>(11 984)</u>
	<u>183 209</u>	<u>157 594</u>

INVESTMENT COMMITMENTS (Note 9)

The notes are an integral part of the financial statements.

For the Board of Directors,
Jacques Daoust, Chairman of the Board
Lucie Chabot, Director

IQ FIER INC.

STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND CUMULATED DEFICIT
for the year ended March 31
(in thousand of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING REVENUES			
Interest income on cash and short-term investments	344	458	600
Change in unrealized loss on investments	<u>(12 967)</u>	<u>(7 560)</u>	<u>(2 608)</u>
	<u>(12 623)</u>	<u>(7 102)</u>	<u>(2 008)</u>
CHARGES			
Administrative fees – parent company for:			
Salaries, fringe benefits, etc.	310	350	447
Administrative services	<u>336</u>	<u>323</u>	<u>314</u>
	646	673	761
Interest paid to the parent company	<u> </u>	<u>112</u>	<u> </u>
	<u>646</u>	<u>785</u>	<u>761</u>
NET LOSS AND COMPREHENSIVE INCOME	(13 269)	(7 887)	(2 769)
OPENING CUMULATED DEFICIT	<u>(11 985)</u>	<u>(4 098)</u>	<u>(1 329)</u>
CLOSING CUMULATED DEFICIT	<u><u>(25 254)</u></u>	<u><u>(11 985)</u></u>	<u><u>(4 098)</u></u>

The notes are an integral part of the financial statements.

IQ FIER INC.

STATEMENT OF CASH FLOWS
for the year ended March 31
(in thousand of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net loss	(13 269)	(7 887)	(2 769)
Adjustment for change in unrealized loss on investments	12 967	7 560	2 608
Change in assets and liabilities linked to operations:			
Other accounts receivable	143	(63)	(57)
Fees payable to parent company	<u>(16)</u>	<u>(1 304)</u>	<u>817</u>
	(175)	(1 694)	599
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES			
Acquisition of investments	<u>(45 286)</u>	<u>(57 923)</u>	<u>(45 609)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Advances from the parent company	<u>38 900</u>	<u>81 500</u>	<u>42 500</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6 561)	21 883	(2 510)
Opening cash and cash equivalents	<u>23 710</u>	<u>1 827</u>	<u>4 337</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>17 149</u></u>	<u><u>23 710</u></u>	<u><u>1 827</u></u>
CASH AND CASH EQUIVALENTS			
Cash on hand	10	1	2
Short-term investments	<u>17 139</u>	<u>23 709</u>	<u>1 825</u>
	<u><u>17 149</u></u>	<u><u>23 710</u></u>	<u><u>1 827</u></u>

The notes are an integral part of the financial statements.

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS**

as at March 31, 2009

(in thousand of dollars, unless otherwise indicated)

1. CONSTITUTION AND NATURE OF ACTIVITIES

IQ FIER inc. (Corporation), created under Part 1A of Québec's *Companies Act*, as authorized by Order-in-Council 1171-2004 of December 15, 2004, under section 36 of the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1), is an exclusively-owned branch of Investissement Québec and, as such, does not pay income tax. Its purpose is to invest in various funds related to the Regional Economic Intervention Fund, which invests in companies in the form of equity or equity equivalents during the start-up and development phases.

Under Order-in-Council 1171-2004, dated December 15, 2004 and amended by Orders-in-Council 680-2005 et 651-2006, dated June 29, 2005 and June 28, 2006 respectively, IQ FIER inc. can invest up to \$318 million as follows: up to \$192 million to support the creation of FIER-Régions, up to \$90 million in the FIER Partenaires mutual fund and up to \$36 million to set up Fonds-Soutien. The amounts invested by the company come from the parent company, which is mandated to receive them from Québec's Minister of Finance.

Section 46 of the *Act respecting Investissement Québec and La Financière du Québec* states that the agency shall formulate, according to the form, content and intervals fixed by the Government, a strategic plan which must include the operations of its subsidiaries. This plan was approved on August 28, 2007 (Order-in-Council 743-2007) and runs until March 31, 2010.

2. STATEMENT OF MAIN ACCOUNTING POLICIES**Use of estimates**

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions (established using the initial fair value of financial assets and liabilities and the value at fiscal year-end) that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. Where this is the case, the impact will be reported in the financial statements of future fiscal years.

New accounting standards adopted on April 1, 2008

On April 1, 2008, the Corporation adopted the following three new accounting standards released by the Canadian Institute of Chartered Accountants (CICA): Section 1535, "Capital Disclosures", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation".

Section 1535 defines information to disclose about the objectives, policies and processes used by the entity to manage its capital, quantitative data on the items the entity considers capital, the entity's compliance with requirements related to capital and the consequences of not complying with the requirements in question.

Sections 3862 and 3863 constitute a series of disclosure obligations and presentation rules applicable to financial instruments, which modify and improve the disclosure obligations stipulated in Section 3861, "Financial Instruments – Disclosure and Presentation", but maintain the same presentation rules.

Section 3862 imposes disclosures to allow those using financial statements to measure the importance of financial instruments for the entity's financial position and performance and to assess the nature and scope of risks resulting from financial instruments to which the entity is exposed and how it manages these risks.

Adoption of these new standards did not affect the Corporation's results since these sections specifically target disclosures.

The following main accounting policies apply to the fiscal years ending March 31, 2009, 2008 and 2007. When a different accounting treatment applies to the fiscal year ending March 31, 2007, the accounting policy applying to this fiscal year is mentioned.

IQ FIER INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousand of dollars, unless otherwise indicated)

2. STATEMENT OF MAIN ACCOUNTING POLICIES (cont'd)**Recognition and measurement of financial instruments**

All financial instruments, with the exception of certain exclusions stipulated in Section 3855, must be classified according to their characteristics, management's intention or choice of category under certain circumstances. When first reported, all financial assets are classified as held for transaction purposes, held until maturity, available for sale or loans and accounts receivable, while financial liabilities are classified as held for transaction purposes or as other financial liabilities. The new standard also allows entities to irrevocably designate financial assets and liabilities, when first reported, as instruments held for transaction purposes.

When initially reported, all financial assets and liabilities are measured at fair value. Where applicable, any discrepancy in fair value and cash consideration is immediately posted to operations, unless they meet the accounting criteria of another type of asset or liability.

In subsequent periods, financial assets and liabilities held for transaction purposes are measured at fair value; gains and losses are posted to operations. Financial assets and liabilities available for sale are measured at fair value; the resulting unrealized gains and losses are posted to other comprehensive income items. Financial assets held until maturity, loans and accounts receivable and other financial liabilities are measured at cost after amortization using the effective interest rate method.

The derivatives incorporated into other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contract and recognized as derivatives when the economic characteristics and risks they represent are not closely linked to those represented by the host contract. At March 31, 2009 and 2008, the Corporation held no current contract or financial instrument with incorporated derivatives requiring separation.

A financial instrument's fair value generally corresponds to the consideration for which the instrument would be exchanged in an operation between unrelated parties acting freely and under fully competitive conditions, in the normal course of business. The best indication of fair value is the market price.

The Corporation did not classify any financial instrument as a financial asset available for sale. Consequently, comprehensive income does not differ from net loss.

Cash and cash equivalents

It is IQ FIER's policy to present cash, short-term investments maturing within three months of their acquisition date and bank overdrafts as cash and cash equivalents. Cash and cash equivalents are held for transaction purposes and reported at their fair value, which is considered equivalent to their book value, given that they mature in the short term. Interest income is reported in the statement of operations under "Interest income on cash and short-term investments".

Advances from the parent company and fees payable to the parent company

Advances from the parent company and fees payable to it are classified under "Other financial liabilities". The fair value of advances from the parent company cannot be reasonably estimated, given that there is no organized market for this type of instrument. Consequently, the fair value is considered equal to the book value. The fair value of fees payable to the parent company is considered equivalent to the book value, given that they mature in the short term.

Investments

The Corporation is an investment company within the meaning of Canadian Institute of Chartered Accountants' accounting guideline No. 18, "Investment Companies" (AcG-18).

In keeping with this accounting guideline, investments were established at their fair value, i.e. the amount of the consideration that the parties having jurisdiction agree on at the date of the financial statements acting freely and under fully competitive conditions. The realization value of these investments could vary significantly compared to the fair value following changes in market conditions.

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousand of dollars, unless otherwise indicated)

2. STATEMENT OF MAIN ACCOUNTING POLICIES (cont'd)**Investments (cont'd)**

The fair value of shares in limited partnerships and unquoted shares in companies acting as sponsorships is based on the audited financial statements of these corporations at December 31 and adjusted to the latter's major operations during the shifting period which, as investments companies, are assessed at fair value. However, under contractual agreements with FIER-Régions and Fonds-Soutien, if the cumulated annual net profit minus the cumulated annual net losses is positive at the end of each agreement's yield waiver period, the Corporation renounces its share. Consequently, the fair value of the investments depends on this clause.

Administrative fees – parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share of the parent company's wages and certain administrative services paid attributable to the Corporation. These fees are recorded on an accrual basis.

3. FUTURE CHANGES TO ACCOUNTING POLICIES DUE TO ACCOUNTING STANDARDS TO BE ADOPTED BY THE CORPORATION**International financial reporting standards (IFRS)**

In February 2008, the Canada's Accounting Standards Board confirmed that entities with a public accountability obligation are required to apply the International Financial Reporting Standards (IFRS). As a result, the Corporation will have to move to a unique set of internationally-recognized standards that will replace Canadian generally accepted accounting principles. IQ FIER inc. will have to apply these standards no later than April 1, 2011.

The Corporation has begun a project to evaluate the impact of applying these standards on its financial statements.

4. SHORT-TERM INVESTMENTS

	<u>2009</u>	<u>2008</u>
Bank acceptances, 0.49% to 0.51%, maturing in April 2009	17 139	7 263
Commercial papers		<u>16 446</u>
	<u>17 139</u>	<u>23 709</u>

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousand of dollars, unless otherwise indicated)

5. INVESTMENTS

	<u>2009</u>	<u>2008</u>
Limited partnership shares		
FIER-Régions – 66.67% of the shares issues by each limited partnership, maturing between June 2015 and January 2018 ^{1,2}	125 463	99 839
FIER Partenaires, s.e.c. – 50% of the shares issued, maturing no later than March 2017 ³	13 166	8 451
Fonds-Soutien – 66.67% of the shares issued by each limited partnership, maturing between July 2015 and May 2018 ^{1,2}	<u>27 377</u>	<u>25 397</u>
	<u>166 006</u>	<u>133 687</u>
Unquoted shares of companies acting as sponsorships		
FIER-Régions – Non-voting shares	3	3
FIER Partenaires, inc. – 50 % of voting shares	2	1
Fonds-Soutien – Non-voting shares	<u>5</u>	<u>1</u>
	<u>166 011</u>	<u>133 692</u>

- 1 These dates could be deferred by general partnerships with the unanimous consent of sponsors for no more than two additional one-year periods.
- 2 At any time in the yield waiver period, the other sponsors have a call option to purchase the shares held by the Corporation at the initial purchase price plus 6% of the annual yield since their acquisition date. As of the third fiscal year after the yield waiver period, the other sponsors also have a call option at a price that is equal to or higher than the fair value or book value.
- 3 This date could be deferred by general partnerships with the unanimous consent of sponsors for no more than three additional one-year periods.

6. SHARE CAPITAL**Authorized**

An unlimited number of common shares without face value.

Category “B”, non-voting, non-participating, fixed dividend, non-cumulative at 8% of the amount paid per share, per year, preferential to the dividend on category “A” shares, redeemable at the company’s or holder’s discretion at a price to be agreed to by the Corporation and category “B” shareholders.

Category “A”, voting and participating

Issued and paid

	<u>2009</u>	<u>2008</u>
10 class A shares	<u>1</u>	<u>1</u>

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousand of dollars, unless otherwise indicated)

7. CAPITAL MANAGEMENT

For capital management purposes, the Corporation's capital consists of its own capital. At March 31, 2009, the Corporation's capital posted a negative balance of \$25.3 million (March 31, 2008: negative balance of \$12.0 million.)

The Corporation receives amounts from the parent company to invest in keeping with its mission. The Corporation is not subject to any capital-related requirement from an outside source.

8. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS

In the normal course of its business, the Corporation is exposed to different risks, notably market risk and liquidity risk. The strategies, policies and processes for managing and controlling risks inherent in activities ensure optimization of the risk-yield ratio within the limits defined by the Corporation.

Credit risk

The credit risk corresponds mainly to the losses the Corporation might undergo or the costs it might have to incur to honour its financial commitments. In this regard, it has financial means favouring enlightened decision-making when analyzing, authorizing and monitoring an investment in a fund related to the Regional Economic Intervention Fund. The Corporation limits its credit risk by diversifying its portfolio by activity sector, development phase and geographic region.

Maximum credit risk exposure

Maximum credit risk exposure at the date of the balance sheet, excluding any guarantee held or credit increase, breaks down as follows:

	<u>2009</u>
Balance sheet	
Short-term investments	17 139
Investments	<u>166 011</u>
	<u>183 150</u>
Off-balance sheet	
Investment commitments	<u>117 491</u>
	<u>300 641</u>

Market risk

These risks include the interest rate risk, currency risk and share price risk:

Interest rate risk

Interest rate fluctuation has a limited impact on the Corporation's interest income. The short-term investments contracted by the Corporation mature in the very near future, thereby reducing the impact of interest rate fluctuation on results.

Currency risk

The Corporation is not affected by currency risks since all of its assets and liabilities are in Canadian dollars.

Share price risk

The Corporation is not affected by share price risks since it does not hold stocks listed on an exchange directly.

IQ FIER INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousand of dollars, unless otherwise indicated)

8. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS (cont'd)**Liquidity risk**

Liquidity risk is associated to the Corporation's capacity to gather the funds required to honour its financial commitments. The goal of liquidity management is to guarantee access to funds when desirable and at a reasonable cost. The main disbursements required are investments in the different funds related to the Regional Economic Intervention Fund. The amounts needed for these investments come from the parent company which is mandated to receive them from the Québec Minister of Finance, according to the Orders-in-Council mentioned in Note 1.

9. INVESTMENT COMMITMENTS

In the course of its activities, the Corporation contracts various commitments, representing the investment agreements authorized by it. The total amounts of these commitments does not necessarily represent future cash needs since some will expire or could be cancelled without having resulted in disbursements.

The amount of these commitments breaks down as:

	<u>2009</u>	<u>2008</u>
Limited partnership shares		
FIER-Régions	45 935	85 097
FIER Partenaires, s.e.c.	71 556	77 876
Fonds-Soutien		<u>2 579</u>
	<u>117 491</u>	<u>165 552</u>

Estimated future disbursements resulting from commitments break down as:

Less than 1 year	55 371
From 1 to 2 years	18 054
From 2 to 3 years	9 550
From 3 to 4 years	<u>15 413</u>
	98 388
Undefined maturity	<u>19 103</u>
	<u>117 491</u>

10. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Corporation did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions, recorded at exchange value, are shown separately in the financial statements.

IQ FIER INC.

AUDITOR'S REPORT

To IQ FIER inc. shareholders

I have audited the balance sheet of IQ FIER inc. as at March 31, 2009 and the statements of operations, comprehensive income, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility IQ FIER management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present, in all material respects, IQ FIER's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of application of the changes resulting from the disclosure of information on capital management and financial instruments, as disclosed in Note 2, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 19, 2009

IQ IMMIGRANTS INVESTISSEURS INC.
(R.S.Q., c. I-16.1)

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2009	2008
ASSETS		
Cash on hand	862	873
Short-term investments (Note 5)	45 501	65 324
Investments (Note 6)	2 911 041	2 876 799
Interest and dividends receivable on investments	1 466	1 694
	<u>2 958 870</u>	<u>2 944 690</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Long-term borrowings (Note 8)	2 701 285	2 664 346
Prepaid advantages conferred by immigrant investors	211 875	223 670
Fees payable to parent company	602	501
Non-refundable financial contributions payable to Emploi-Québec	524	912
Non-refundable financial contributions payable to Ministère de l'Immigration et des Communautés culturelles	3 436	2 511
Other liabilities	1 115	1 634
	<u>2 918 837</u>	<u>2 893 574</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	1	1
Retained earnings	57 212	46 587
Cumulated other comprehensive income items	(17 180)	4 528
	<u>40 032</u>	<u>51 115</u>
	<u>40 033</u>	<u>51 116</u>
	<u>2 958 870</u>	<u>2 944 690</u>

COMMITMENTS (Note 15)

The notes are an integral part of the financial statements.

For the Board of Directors,
Jacques Daoust, Chairman of the Board
Jean Larivée, Director

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF OPERATIONS
for the fiscal year ended March 31
(in thousands of dollars)

	2009	2008	2007
OPERATING REVENUES			
Interest income on Gouvernement du Québec notes receivable	114 062	107 154	95 215
Interest income on cash and short-term investments	1 425	787	244
Advantages conferred by immigrant investors	105 749	109 790	
Other investment income	6 113	8 268	6 255
Gain on sale of investments			1 338
Gain (loss) on financial assets available for sale	(890)	480	
Unrealized exchange gain (loss) on investments			149
	<u>226 459</u>	<u>226 479</u>	<u>103 201</u>
OPERATING EXPENSES			
Non-refundable financial contributions (Note 11)	51 464	53 512	49 869
Financial intermediaries' fees	48 765	50 540	39 545
Interest charges linked to long-term borrowings	112 893	106 321	
Financial contribution management fees			
– parent company	1 699	1 770	1 569
Other	531	290	222
	<u>215 352</u>	<u>212 433</u>	<u>91 205</u>
OPERATING PROFITS	<u>11 107</u>	<u>14 046</u>	<u>11 996</u>
ADMINISTRATIVE FEES – PARENT COMPANY FOR:			
Salaries, fringe benefits and other	243	129	183
Administrative services	239	230	223
	<u>482</u>	<u>359</u>	<u>406</u>
NET INCOME	<u>10 625</u>	<u>13 687</u>	<u>11 590</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

COMPREHENSIVE INCOME
for the fiscal year ended March 31
(in thousands of dollars)

	2009	2008
NET INCOME	<u>10 625</u>	<u>13 687</u>
OTHER COMPREHENSIVE INCOME ITEMS		
Net unrealized losses on financial assets available for sale	(22 598)	(2 891)
Reclassification under net results of losses (gains) on financial assets available for sale	<u>890</u>	<u>(480)</u>
Net change in unrealized losses on financial assets available for sale	<u>(21 708)</u>	<u>(3 371)</u>
COMPREHENSIVE INCOME	<u>(11 083)</u>	<u>10 316</u>

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY
for the fiscal year ended March 31
(in thousands of dollars)

	2009	2008
SHARE CAPITAL	<u>1</u>	<u>1</u>
OPENING UNAPPROPRIATED EARNINGS	46 587	44 554
Initial effect of adoption of accounting standards for financial instruments		(11 654)
Net income	<u>10 625</u>	<u>13 687</u>
CLOSING UNAPPROPRIATED EARNINGS	<u>57 212</u>	<u>46 587</u>
OPENING CUMULATED OTHER COMPREHENSIVE INCOME ITEMS	4 528	
Initial effect of adoption of accounting standards for financial instruments		7 899
Net change in unrealized losses on financial assets available for sale	<u>(21 708)</u>	<u>(3 371)</u>
CLOSING CUMULATED OTHER COMPREHENSIVE INCOME ITEMS	<u>(17 180)</u>	<u>4 528</u>
SHAREHOLDERS' EQUITY	<u><u>40 033</u></u>	<u><u>51 116</u></u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF CASH FLOWS
for the fiscal year ended March 31
(in thousands of dollars)

	2009	2008	2007
CASH FLOWS RELATED TO OPERATING ACTIVITIES			
Net income	10 625	13 687	11 590
Adjustment for:			
Amortization of premiums and discounts on investments	(112 966)	(106 024)	(93 847)
Gains on sale of investments			(1 338)
Loss (gain) on financial assets available for sale	890	(480)	
Unrealized exchange loss (gain) on investments			(149)
Amortization of deferred financial intermediaries' fees			29 686
Advantages conferred by immigrant investors	(105 749)	(109 790)	
Interest charges on long-term borrowings	112 893	106 321	
Changes in assets and liabilities related to operating activities:			
Interest and dividends receivable in investments	228	(165)	254
Fees payable to the parent company	101	(58)	75
Non-refundable financial contributions payable to Emploi-Québec	(388)	(1 853)	156
Non-refundable financial contributions payable to the Ministère de l'Immigration et des Communautés culturelles	925	1 345	1 166
Other liabilities	(519)	623	218
	<u>(93 960)</u>	<u>(96 394)</u>	<u>(52 189)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES			
Net decrease (increase) of short-term investments maturing more than three months after their acquisition date	4 058	(16 708)	
Acquisition of investment	(681 201)	(783 723)	(506 326)
Sale of investment	737 292	591 050	274 872
Deferred financial intermediaries' fees			(30 942)
	<u>60 149</u>	<u>(209 381)</u>	<u>(262 396)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES			
Long-term borrowings	560 800	684 800	534 800
Repayment of long-term borrowings	(542 800)	(336 400)	(216 000)
	<u>18 000</u>	<u>348 400</u>	<u>318 800</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(15 811)</u>	<u>42 625</u>	<u>4 215</u>
OPENING CASH AND CASH EQUIVALENTS	<u>49 489</u>	<u>6 864</u>	<u>2 649</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>33 678</u></u>	<u><u>49 489</u></u>	<u><u>6 864</u></u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

STATEMENT OF CASH FLOWS (cont'd)
 for the fiscal year ended March 31
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
CASH AND CASH EQUIVALENTS			
Cash on hand	862	873	246
Short-term investment maturing within 3 months of the acquisition date	<u>32 816</u>	<u>48 616</u>	<u>6 618</u>
	<u>33 678</u>	<u>49 489</u>	<u>6 864</u>

The notes are an integral part of the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS**

as at March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND NATURE OF ACTIVITIES

IQ Immigrants Investisseurs inc. (Corporation), incorporated under Part 1A of the *Québec Companies Act*, as authorized by Order-in-Council 699-2000, dated June 7, 2000, under section 36 of the *Act respecting Investissement Québec and La Financière du Québec* (R.S.Q., c. I-16.1), is a wholly-owned subsidiary of Investissement Québec and, as such, does not pay income tax. It coordinates the collection, management and investment of sums of money belonging to immigrant investors. Among other things, it allocates the revenues generated by investing these sums to the financial assistance program for the companies it administers. Since January 26, 2005, under Order-in-Council 29-2005, a portion of the revenues generated by investing these amounts is also allocated, in the form of financial contributions, to the “Programme d’aide à l’intégration des immigrants et des minorités visibles en emploi” administered by Emploi-Québec and intended for companies as activities promoting business immigration of the Ministère de l’Immigration et des Communautés culturelles.

Section 46 of the *Act respecting Investissement Québec and La Financière du Québec* states that the parent company shall establish a strategic plan that includes the activities of its subsidiaries and whose form, content and frequency are set by the Gouvernement du Québec. This plan was approved on August 28, 2007 (Order-in-Council 743-2007) and runs until March 31, 2010.

2. MAIN ACCOUNTING PRINCIPLES**Use of estimates**

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. In such cases, the impact will be reported in future fiscal years’ financial statements.

New accounting standards adopted on April 1, 2008

On April 1, 2008, the Corporation adopted the new accounting standards for financial instruments released by the Canadian Institute of Chartered Accountants: Section 1535, “Capital Disclosures”, Section 3862, “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”.

Section 1535 defines information to disclose about the objectives, policies and processes used by the entity to manage its capital, quantitative data on the items the entity considers capital, the entity’s compliance with requirements related to capital and the consequences of not complying with the requirements in question.

Sections 3862 and 3863 constitute a series of disclosure obligations and presentation rules applicable to financial instruments, which modify and improve the disclosure obligations stipulated in Section 3861, “Financial Instruments – Disclosure and Presentation”, but maintain the same presentation rules.

Section 3862 imposes disclosures to allow those using financial statements to measure the importance of financial instruments for the entity’s financial position and performance and to assess the nature and scope of risks resulting from financial instruments to which the entity is exposed and how it manages these risks.

Adoption of these new standards did not affect the Corporation’s results since these sections specifically target disclosures.

The following main accounting policies apply to the fiscal years ending March 31, 2009, 2008 and 2007. When a different accounting treatment applies to the fiscal year ending March 31, 2007, the accounting policy applying to this fiscal year is mentioned.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 as at March 31, 2009
 (in thousands of dollars)

2. MAIN ACCOUNTING PRINCIPLES (cont'd)**Financial instrument classification and measurement**

All financial instruments, with the exception of certain exclusions stipulated in Section 3855, must be classified according to their characteristics, management's intention or choice of category under certain circumstances. When first reported, all financial assets are classified as held for transaction purposes, held until maturity, available for sale or loans and accounts receivable, while financial liabilities are classified as held for transaction purposes or as other financial liabilities. The new standard allows entities to irrevocably designate financial assets and liabilities, when first reported, as instruments held for transaction purposes.

When initially reported, all financial assets and liabilities are measured at fair value. Where applicable, any discrepancy in fair value and cash consideration is immediately posted to operations, unless they meet the accounting criteria of another type of asset or liability.

In subsequent periods, financial assets and liabilities held for transaction purposes are measured at fair value; gains and losses are posted to operations. Financial assets and liabilities available for sale are measured at fair value; the resulting unrealized gains and losses are posted to other comprehensive income items. Financial assets held until maturity, loans and accounts receivable and other financial liabilities are measured at cost after amortization using the effective interest rate method.

The derivatives incorporated into other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contract and recognized as derivatives when the economic characteristics and risks they represent are not closely linked to those represented by the host contract. At March 31, 2009 and 2008, the Corporation held no current contract or financial instrument with incorporated derivatives requiring separation.

A financial instrument's fair value generally corresponds to the consideration for which the instrument would be exchanged in an operation between unrelated parties acting freely and under fully competitive conditions, in the normal course of business. The best indication of fair value is the market price.

When it is available, the Corporation uses the market price (bid/sell price) to measure financial instruments' value. When there are no markets or they are not considered liquid enough, the Corporation determines the fair value using measurement techniques based, as far as possible, on data observed on markets. These measurement techniques include analysis of actualized cash flows, measurement models and other measurement methods commonly used on the market.

When the fair value is established using measurement models, the Corporation uses assumptions to determine the amount, moment of realization of estimated future cash flows and estimated actualization rates used. These assumptions are based mainly on factors that can be observed on external markets, such as yield curves, volatility factors and credit risk.

Cash and cash equivalents

It is the Corporation's policy to present cash and short-term investments maturing within three months' of their acquisition date under cash and cash equivalents. Cash and cash equivalents are held for transaction purposes and reported at their fair value, which is considered equivalent to their book value, given that they mature in the short term. Interest income is reported under "Interest income on cash and short-term investments" in the statement of operations.

InvestmentsNotes receivable from the Gouvernement du Québec

Notes receivable from the Gouvernement du Québec are classified in the category loans and accounts receivable. When initially recognized, notes receivable from the Gouvernement du Québec are recognized at their fair value. Then, they are disclosed in the balance sheet at cost after amortization and discounts on purchase are transferred to operations using the effective interest rate method until their maturity date and are disclosed under "Interest income on notes receivable from the Gouvernement du Québec" in the statement of operations.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

2. MAIN ACCOUNTING PRINCIPLES (cont'd)**Investments (cont'd)**Other investments

Bonds and other debt securities, money market securities and other equity securities are designated financial assets available for sale. The Corporation chose to recognize the operations on the assets on the transaction date and to add the related transaction charges to the investments' book value.

Investments available for sale are recognized at their fair value. The related unrealized gains and losses are recognized in "Other comprehensive income items" in the statement of comprehensive income. When they are sold, the realized gains or losses, determined according to average cost, are reclassified under 'Gain (loss) on financial assets available for sale' in the statement of operations the date of the transaction.

The amortization of premiums and discounts calculated using the effective interest rate method and dividend and interest income are recognized under "Other investment income" in the statement of operations.

Financial assets available for sale are evaluated periodically to determine whether there is an objective indication of depreciation other than temporary. The factors the Corporation takes into account to determine whether there is an objective indication of depreciation include duration and magnitude of the decline in fair value compared to cost or cost after amortization, the issuer's financial position and outlooks, and the Corporation's ability and intention to hold these assets for a period that is sufficiently long to allow any recovery of their fair value. If there is an objective indication that investments available for sale have depreciated to the point of a permanent decline in the fair value below cost or cost after amortization, the cumulated loss of "Cumulated other comprehensive income items" is reclassified under "Gain (loss) on financial assets available for sale" in the statement of operations. These losses in value may post recovery.

Long-term borrowings

Long-term borrowings are classified in the category "Other financial liabilities". Initially, long-term borrowings are recognized at their fair value. Then, long-term borrowings are presented in the balance sheet at cost after amortization, calculated using the effective interest rate method. The corresponding interest charges are presented under "Interest charges linked to long-term borrowings" in the statement of operations. Any discrepancy in the initial fair value and the consideration in cash is reported in the balance sheet under "Advantages collected in advance conferred by immigrant investors". This amount is then progressively transferred to operations and recognized as income under "Advantages conferred by immigrant investors" as the Corporation incurs the expenses it is contractually committed to incurring with these amounts.

Fees payable to parent company

Fees payable to the parent company are classified under "Other financial liabilities" and are recognized at their fair value, which is considered equivalent to their book value, given that they mature in the short term.

Other assets and liabilities

Other assets are classified under "Loans and accounts receivable" and other liabilities are classified under "Other financial liabilities". The fair value of other assets and liabilities is considered equivalent to their book value, given that they mature in the short term.

Financial intermediaries' fees

The Corporation pays fees to financial intermediaries for canvassing immigrant investors, seeking businesses to recommend for non-refundable financial contributions and closing immigrant investors' files.

Fees related to canvassing immigrant investors and seeking businesses to recommend are posted when the Corporation accepts the financial intervention (fees related to canvassing immigrant investors were deferred and posted to operations over a period corresponding to the duration of investments, i.e. five years, using the straight-line method for the fiscal year ended March 31, 2007). Fees for closing immigrant investors' files are posted the date the file is closed when services are rendered by the financial intermediary.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. MAIN ACCOUNTING PRINCIPLES (cont'd)**Financial contribution management fees – Parent company**

The Corporation pays fees to a parent company for analyzing and authorizing non-refundable financial contributions recommended by a financial intermediary and for authorizing disbursement of these contributions.

Fees related to analysis and authorization are posted when the Corporation accepts the financial intervention. Fees related to disbursements are recorded when each one is authorized.

Non-refundable financial contributions

Financial contributions to companies are posted to operations in the fiscal year in which the Corporation authorized their disbursement, to the extent that these conditions are respected. Financial contributions to Emploi-Québec are posted to operations in the fiscal year in which the corresponding expenses were incurred by it. Financial contributions to the Ministère de l'Immigration et des Communautés culturelles are posted to operations in the fiscal year in which its share in the income generated by the investment is reported.

Administrative fees – Parent company

The Corporation pays administrative fees to Investissement Québec. These fees represent the share of the parent company's administrative costs and certain common costs attributable to the Corporation. These fees are recorded on an accrual basis.

Currency conversion

Monetary assets and liabilities in foreign currency are converted into Canadian dollars at the exchange rate in effect on the date of the financial statements. Revenues and expenses in foreign currency are converted into Canadian dollars at the exchange rate in effect the date of the transaction. Exchange gains and losses are posted to operations or comprehensive income under the columns responsible for the exchange gain or loss.

3. FUTURE CHANGES IN ACCOUNTING POLICIES RESULTING FROM ACCOUNTING STANDARDS ADOPTED**Goodwill and intangible assets**

In February 2008, The Canadian Institute of Chartered Accounts released Section 3064, "Goodwill and Intangible Assets." This new standard reinforces the approach according to which assets are reported only if they correspond to the definition of an asset and the accounting criteria for assets. It also clarifies application of the concept of matching revenues and expenses so as to eliminate the practice consisting of posting as assets elements that do not correspond to the definition of an asset or the accounting criteria for assets. IQ Immigrants Investisseurs inc. must apply this standard no later than April 1, 2009.

Corporation management expects that the application of this standard will not affect its financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of Canada confirmed that companies with a public accountability obligation will have to apply the International Financial Reporting Standards – IFRS. The Corporation will, therefore, have to move to a unique set of internationally recognized standards that will replace Canadian generally accepted accounting principles. IQ Immigrants Investisseurs inc. will have to apply these standards no later than April 1, 2011.

The Corporation is beginning a project to evaluate the impact of applying these standards on its financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

4. FINANCIAL INSTRUMENT BOOK VALUE BY CATEGORY

Financial instruments are reported in the consolidated balance sheet at fair value of cost after amortization according to the categories defined by the accounting standards for financial instruments published by the Canadian Institute of Chartered Accountants.

The book value of the financial instruments in each category details as follows:

	Financial instruments to be classified as held transaction purposes	Financial assets available for sale	Loans and receivables	Financial liabilities other than those held for transaction purposes	Total 2009
Financial assets					
Cash on hand	862				862
Short-term investments	45 501				45 501
Investments		174 094	2 736 947		2 911 041
Interest and dividends receivable on investments			1 466		1 466
	<u>46 363</u>	<u>174 094</u>	<u>2 738 413</u>		<u>2 958 870</u>
Financial liabilities					
Long-term borrowings				2 701 285	2 701 285
Fees payable to parent company				602	602
Non-financial contributions payable to Emploi-Québec				524	524
Non-refundable financial contributions payable to Ministère de l'Immigration et des Communautés culturelles				3 436	3 436
Other liabilities				1 115	1 115
				<u>2 706 962</u>	<u>2 706 962</u>

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

4. FINANCIAL INSTRUMENT BOOK VALUE BY CATEGORY (cont'd)

	Financial instruments to be classified as held transaction purposes	Financial assets available for sale	Loans and receivables	Financial liabilities other than those held for transaction purposes	Total 2008
Financial assets					
Cash on hand	873				873
Short-term investments	65 324				65 324
Investments		154 965	2 721 834		2 876 799
Interest and dividends receivable on investments			1 694		1 694
	<u>66 197</u>	<u>154 965</u>	<u>2 723 528</u>		<u>2 944 690</u>
Financial liabilities					
Long-term borrowings				2 664 346	2 664 346
Fees payable to parent company				501	501
Non-financial contributions payable to Emploi-Québec				912	912
Non-refundable financial contributions payable to Ministère de l'Immigration et des Communautés culturelles				2 511	2 511
Other liabilities				1 634	1 634
				<u>2 669 904</u>	<u>2 669 904</u>

5. SHORT-TERM INVESTMENTS

	2009	2008
Short-term investments maturing within three months of the acquisition date:		
Bank acceptances, 0.50%, maturing in April 2009	8 296	
Deposit certificate, to 0.45% at 0.58%, maturing in April and May 2009	5 431	5 801
Discount note, 0.30%, maturing in May 2009	944	2 241
Canada treasury bonds, 0.36% to 0.49%, maturing in April 2009	6 913	37 264
Ontario treasury bonds, 0.57% to 0.67%, maturing in April and May 2009	<u>7 241</u>	
Amounts carried forward	<u>28 825</u>	<u>45 306</u>

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

5. SHORT-TERM INVESTMENTS (cont'd)

	2009	2008
Amounts brought forward	28 825	45 306
New Brunswick treasury bonds, 0.61%, maturing in April 2009	1 249	
Newfoundland & Labrador treasury bonds, 0.63%, maturing in May 2009	2 742	
T-bill		3 310
Short-term investments maturing more than three months after the acquisition date:		
Canada treasury bonds, from 0.37% to 0.44%, maturing between April and September 2009	7 127	16 708
Ontario treasury bonds, 0.40%, maturing in August 2009	100	
New Brunswick treasury bonds, 0.77%, maturing in June 2009	99	
Newfoundland & Labrador treasury bonds, from 0.63% to 0.71%, maturing in April and June 2009	5 359	
	<u>45 501</u>	<u>65 324</u>

6. INVESTMENTS

	2009	2008
Gouvernement du Québec notes receivable, 2.84% to 4.94%, maturing between April 2009 and March 2014, face value: \$3.0 billion	2 736 947	2 721 834
Bonds and other debt instruments, 3.25% to 11.40%, maturing between June 2009 and June 2022, face value: \$81.0 million	86 698	97 708
Shares and other equity interest	87 396	57 242
Money market securities – mutual funds		15
	<u>2 911 041</u>	<u>2 876 799</u>

The amount of investments in US dollars totalled \$30.5 million CAN at March 31, 2009 (\$23.2 million CAN at March 31, 2008) and the amount of investments in other currencies totalled \$8.2 million CAN at March 31, 2009 and 2008.

Investments break down as:

Less than one year	706 781
From 1 to 2 years	507 071
From 2 to 3 years	503 212
From 3 to 4 years	614 776
From 4 to 5 years	486 592
From 5 to 10 years	4 422
From 10 to 20 years	791
	<u>2 823 645</u>
No maturity date	87 396
	<u>2 911 041</u>

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

6. INVESTMENTS (cont'd)

Unrealized gains (losses) on financial assets available for sale break down as:

	<u>Cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value 2009</u>
Bonds and other debt securities	84 628	2 313	(243)	86 698
Shares and other equity securities	106 657	1 982	(21 243)	87 396
Money market securities – mutual funds				
	<u>191 285</u>	<u>4 295</u>	<u>(21 486)</u>	<u>174 094</u>

Financial assets available for sale are measured periodically to determine whether there is an objective indication that they have depreciated, other than temporarily. Unrealized losses on them are due primarily to the fluctuation of market prices or exchange rates. The Corporation has the capacity and intention to hold these assets for a sufficient period of time to allow their fair value to be recovered. At March 31, 2009, the Corporation reported permanent declines in value of \$1.4 million (no permanent decline in value at March 31, 2008).

7. BANK LOAN

The Corporation has an annually renewable authorized bank credit line of \$2 million bearing interest at the prime lending rate (2.50% at March 31, 2009; 5.25% at March 31, 2008) and renewable annually. At March 31, 2008 and 2009, it had not been used.

8. LONG-TERM BORROWINGS

	<u>2009</u>	<u>2008</u>
Notes – immigrant investors, interest-free, maturing between April 2009 and March 2014, face value of \$3.0 billion (effective rates of 2.84% to 4.94%) ¹	<u>2 701 285</u>	<u>2 664 346</u>

The contractual amount of capital payments on long-term borrowings breaks down as:

Less than one year	695 200
From 1 to 2 years	507 200
From 2 to 3 years	531 600
From 3 to 4 years	682 400
From 4 to 5 years	549 600
From 5 to 6 years	<u>10 800</u>
	<u>2 976 800</u>

1 Capital payments are guaranteed by Québec.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

9. SHARE CAPITAL

Authorized

An unlimited number of class A participating and voting shares with no face value.

	<u>2009</u>	<u>2008</u>
Issued and paid		
1 000 class A shares	<u>1</u>	<u>1</u>

10. CAPITAL MANAGEMENT

For capital management purposes, the Corporation's capital comprises its shareholders' equity. At March 31, 2009, the Corporation's capital totalled \$40.0 million (March 31, 2008: \$51.1 million).

The capital objectives have not changed since last fiscal year. The surplus, if applicable, is kept by the Corporation unless the Government decides otherwise. The Corporation is subject to no other capital-related requirement from an outside source.

11. NON-REFUNDABLE FINANCIAL CONTRIBUTIONS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Financial contributions- Companies	46 838	46 781	43 127
Financial contributions – Emploi-Québec	3 702	5 385	5 576
Financial contributions – Ministère de l'Immigration et des Communautés culturelles	<u>924</u>	<u>1 346</u>	<u>1 166</u>
	<u>51 464</u>	<u>53 512</u>	<u>49 869</u>

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value determines the approximate value at which financial instruments could be exchanged between unrelated parties acting freely under fully competitive conditions in the normal course of business. The best indication of the fair value is the market price.

When it is available, the Corporation uses the market price at the date of the financial statements to assess the fair value of its financial instruments. When there are no markets or the markets are not considered sufficiently liquid, the Corporation measures the fair value by applying evaluation methods and using assumptions. Given the role of judgement in applying a great many acceptable techniques in evaluating and estimating fair value, they are not necessarily comparable between different entities. The fair value is based on the market value at a given point in time and does not necessarily reflect the future fair value of financial instruments. It cannot be interpreted as a realizable amount should instruments be settled immediately.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousand of dollars)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

The table below shows the book value and the fair value of the financial instruments disclosed in the financial statements, established using the evaluation methods and assumptions described below. The fair value of the assets and liabilities not considered financial instruments, such as advantages collected in advance conferred by immigrant investors, is not included in the table.

	Book value	Fair value	Difference 2009	Book value	Fair value	Difference 2008
Assets						
Cash on hand and short-term investments	46 363	46 352	(11)	66 197	66 197	
Investments	2 911 041	3 045 245	134 204	2 876 799	2 939 237	62 438
Other assets	1 466	1 466		1 694	1 694	
	<u>2 958 870</u>	<u>3 093 063</u>	<u>134 193</u>	<u>2 944 690</u>	<u>3 007 128</u>	<u>62 438</u>
Liabilities						
Long-term borrowings	2 701 285	2 834 666	(133 381)	2 664 346	2 725 902	(61 556)
Other liabilities	5 677	5 677		5 558	5 558	
	<u>2 706 962</u>	<u>2 840 343</u>	<u>(133 381)</u>	<u>2 669 904</u>	<u>2 731 460</u>	<u>(61 556)</u>
			<u>812</u>			<u>882</u>

The fair value of the financial instruments disclosed in the financial statements has been estimated using the following evaluation methods and assumptions:

Cash and short-term investments, other assets and liabilities

Cash and short-term investments maturing within three months of the acquisition date and other assets and liabilities are recognized at their fair value, which is considered equivalent to their book value, given that they mature in the short term. Short-term investments maturing more than three months after their acquisition date are reported at their fair value, established based on market rates, using the buying rate, the date of the balance sheet.

Investments

Investments in securities are recognized at their fair value, which is determined based on the market rate, set using the bid price, the date of the balance sheet. The fair value of notes receivable from the Gouvernement du Québec is estimated by assessing cash flows using market interest rates for investments with similar credit and risk conditions.

Long-term borrowings

The fair value of borrowings is determined using market prices for debt instruments with similar credit and risk conditions.

13. INTEREST-RATE SENSITIVITY

The interest-rate risk resulting from the mismatch of various cash flows and its effects on the Corporation's financial results depend on changes in interest rates.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

13. INTEREST-RATE SENSITIVITY (cont'd)

The Corporation's sensitivity to interest-rate changes at March 31 is:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Not sensitive to interest rate	Total
Assets						
Cash on hand and short-term investments	45 354	147			862	46 363
<i>Effective interest rate</i>	<i>0.5%</i>	<i>0.4%</i>				
Investments	155 357	551 425	2 111 651	5 212	87 396	2 911 041
<i>Effective interest rate</i>	<i>4.4%</i>	<i>4.1%</i>	<i>4.1%</i>	<i>5.2%</i>		
Other assets					1 466	1 466
	<u>200 711</u>	<u>551 572</u>	<u>2 111 651</u>	<u>5 212</u>	<u>89 724</u>	<u>2 958 870</u>
Liabilities and equity						
Interest-free borrowings	151 122	529 795	2 010 973	9 395		2 701 285
<i>Effective interest rate</i>	<i>4.4%</i>	<i>4.1%</i>	<i>4.1%</i>	<i>2.8%</i>		
Advantages collected in advance conferred by immigrant investors					211 875	211 875
Other liabilities					5 677	5 677
Shareholders' equity					40 033	40 033
	<u>151 122</u>	<u>529 795</u>	<u>2 010 973</u>	<u>9 395</u>	<u>257 585</u>	<u>2 958 870</u>
Difference in sensitivity for 2009	<u>49 589</u>	<u>21 777</u>	<u>100 678</u>	<u>(4 183)</u>	<u>(167 861)</u>	
Difference in sensitivity for 2008	<u>71 694</u>	<u>16 845</u>	<u>127 879</u>	<u>4 102</u>	<u>(220 520)</u>	

The effective interest rate is the average weighted effective interest rate, based on the rate modification date indicated in the contract or the due date, whichever falls first.

14. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS

In the normal course of its business, the Corporation is exposed to different risks, notably credit risk, market risk and liquidity risk. The strategies, policies and processes for managing and controlling risks inherent in activities ensure optimization of the risk-yield ratio within the limits defined by the Corporation. The main elements regarding markers for these risks are included in the Corporation's investment policy.

Credit risk

Credit risk is associated primarily with losses the Corporation might post or costs it may have to incur due to a third party's inability to honour its financial commitments. The Corporation's investment policy requires, for short-term securities and short-term corporate bonds, an issuer to have a minimum credit rating.

The Corporation's investment policy limits concentration risks by providing for markers to counter overexposure to a single security or industry.

IQ IMMIGRANTS INVESTISSEURS INC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

14. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS (cont'd)**Credit risk (cont'd)***Maximum exposition to credit risk*

The Corporation's maximum exposure to concentration risk at the date of the balance sheet, excluding guarantees held or other forms of credit boosting, detail as follows:

	<u>2009</u>
Balance sheet	
Short- term investments	45 501
Investments	2 911 041
Interest and dividends receivable on investments	<u>1 466</u>
	<u>2 958 008</u>
Off-balance sheet	
Engagements	<u>189 733</u>
	<u><u>3 147 741</u></u>

Market risk

The Corporation's investment portfolio is managed by outside managers mandated to mitigate market risks while complying with the investment policy of Investissement Québec and its subsidiaries. Every quarter, these managers must certify that they comply with the policy's provisions. The Corporation regularly assesses their performance.

These risks include the interest rate risk, currency risk and share price risk.

Interest rate risk

Interest rate risk is defined as the effect of changes in the interest rate on the value of fixed-interest securities held by the Corporation. In this regard, the investment policy limits fixed-interest securities maturing within or in five years. Further, the average duration of the bond portfolio may not vary more than 0.25 per year from the benchmark.

The table below shows the potential impact on net earnings and comprehensive income of an immediate, ongoing interest rate increase or decrease of 100 centesimal points (floor rate of 0% for decreases).

Interest rate sensitivity:

	<u>2009</u>
Interest rate increase of 100 centesimal points	
Impact on net earnings	
Impact on comprehensive income	(2 679)
Interest rate decrease of 100 centesimal points	
Impact on net earnings	
Impact on comprehensive income	2 772

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

14. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS (cont'd)**Market risk (cont'd)***Currency risk*

The Corporation is exposed to a currency risk since part of its investments are in currencies other than the Canadian dollar. The Corporation's investment policy defines limits for each class of asset in terms of gross and net risk (after considering hedge strategies, if applicable).

The table below shows the potential impact on net earnings and comprehensive income of a 10% increase or decrease in the Canadian dollar compared to the currencies of the Corporation's investments.

Exchange rate sensitivity:

	<u>2009</u>
10% increase in Canadian dollar	
Impact on net earnings	
Impact on comprehensive income	(3 969)
10% increase in Canadian dollar	
Impact on net earnings	
Impact on comprehensive income	3 969

Stock market price risk

Stock market price risk results from the fact that changes in stock market prices can result in a decrease in the value of the Corporation's quoted share portfolio. The investment policy manages this risk through various limits designed to maximize portfolio diversification.

The table below shows the potential impact on net earnings and comprehensive income of an immediate, ongoing 20% increase or decrease in stock market prices.

Stock market price sensitivity:

	<u>2009</u>
20% increase in stock market prices	
Impact on net earnings	
Impact on comprehensive income	17 479
20% decrease in stock market prices	
Impact on net earnings	
Impact on comprehensive income	(17 479)

Liquidity risk

Liquidity risk is associated with the Corporation's ability to amass the funds required to honour its financial commitments. The goal of liquidity management is to guarantee access to funds when desirable and optimal while respecting the investment policy of Investissement Québec and its subsidiaries approved by the parent company's Board of Directors. The main disbursements required are repayments of notes to immigrant investors, which are covered by the notes receivable from the Gouvernement du Québec with the same due dates.

IQ IMMIGRANTS INVESTISSEURS INC.**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

15. COMMITMENTS

In the normal course of business, the Corporation contracts various commitments. These represent the amounts of non-refundable financial contributions whose disbursement has not been authorized and the amounts allocated to financial contributions to Emploi-Québec, which the latter has not spent. The total amount of these commitments does not necessarily represent future cash flow requirements, since some of them may be terminated without having generated disbursements.

The Corporation also agreed to pay fees to financial intermediaries for canvassing for immigrant investors, seeking out companies to recommend and closing immigrant investor files.

Commitments break down as:

	<u>2009</u>	<u>2008</u>
Non-refundable financial contributions - Companies	154 426	149 747
Financial intermediaries' fees	<u>35 307</u>	<u>43 413</u>
	<u>189 733</u>	<u>193 160</u>

Future estimated disbursements resulting from these commitments are:

Less than one year	81 566
From 1 to 2 years	47 106
From 2 to 3 years	35 039
From 3 to 4 years	21 183
From 4 to 5 years	<u>4 839</u>
	<u>189 733</u>

16. RELATED PARTY TRANSACTIONS

The Corporation is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Corporation did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

IQ IMMIGRANTS INVESTISSEURS INC.**AUDITOR'S REPORT**

To IQ Immigrants Investisseurs inc. shareholders

We have audited the balance sheet of IQ Immigrants Investisseurs inc. (Corporation) as at March 31, 2009 and the statements of operations, comprehensive income, change in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of Corporation 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, which require planning and performing an audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In our opinion, these financial statements present, in all material respects, the financial position of IQ Immigrants Investisseurs inc. as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, with the exception of the application change changes governing capital management and financial instruments disclosures as disclosed in Note 2, these principles were applied on a basis consistent with that of the preceding year.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.¹
Chartered Accountants

Québec, May 22, 2009

¹ CA, Auditor, Licence No. 16162

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., c. L-O.1)

CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008 Adjusted (Note 3)
REVENUES		
Gouvernement du Québec contribution (Note 4)	307 489	322 313
Government of Canada contribution (Note 5)	133 225	287 575
Participant's contributions to the AgriStability program	5 674	5 038
Administrative fees	5 037	4 470
Interest – Farm Income Stabilization Insurance Fund	18 396	35 535
Interest and investment income	5 126	5 550
Other	213	402
	<u>475 160</u>	<u>660 883</u>
EXPENSES		
Contribution to the:		
Farm Income Stabilization Insurance Fund	511 729	323 287
Crop Insurance Fund	41 709	41 777
Farm and Forestry Loan Insurance Fund	10 849	10 914
AgriStability Program (Note 6)	113 450	183 059
AgriInvest Program	44 983	111 400
Contribution to interest payments	2 917	3 778
Subsidy – Young farmers' financial support program	11 139	10 272
Special federal programs (Note 7)	31	44 406
Other programs (Note 8)	3 157	18 845
Contribution to financing of organizations	1 300	3 680
Administrative expenses (Note 9)	56 835	55 944
Interest	29 847	35 513
Decline in value on investments in ABCPs (Note 17)	1 094	13 879
	<u>829 040</u>	<u>856 754</u>
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE SHARE OF CAPITAL FINANCIÈRE AGRICOLE INC.	<u>(353 880)</u>	<u>(195 871)</u>
Share of the loss of Capital Financière agricole inc.	<u>(5 543)</u>	<u>(2 607)</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u><u>(359 423)</u></u>	<u><u>(198 478)</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED STATEMENT OF CUMULATED DEFICIT
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u> Adjusted (Note 3)
OPENING CUMULATED DEFICIT		
Previously established balance	(285 563)	(87 070)
Impact of the adoption of public sector standards April 1, 2007 (Note 3)	<u>318</u> (285 245)	<u>303</u> (86 767)
DEFICIENCY OF REVENUES OVER EXPENSES	<u>(359 423)</u>	<u>(198 478)</u>
CLOSING CUMULATED DEFICIT	<u>(644 668)</u>	<u>(285 245)</u>

GENERAL RESERVE (Note 10)

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u> Adjusted (Note 3)
ASSETS		
Current assets		
Cash		114
Short-term investments (Note 11)	2 169	4 783
Accounts receivable and accrued interest	26 729	2 800
Receivable from Capital Financière agricole inc. (Note 12)	4 300	507
Funds receivables (Note 13)	709 585	952 756
Gouvernement du Québec receivable (Note 14)	919	1 672
Government of Canada receivable (Note 15)	87 716	170 306
Payments receivable on loans (Note 16)	709	951
	<u>832 127</u>	<u>1 133 889</u>
Receivable from Capital Financière agricole inc. (Note 12)	643	477
Gouvernement du Québec receivable (Note 14)	49	967
Loans (Note 16)	3 220	4 626
Investments (Note 17)	92 457	96 139
Capital assets (Note 18)	<u>3 703</u>	<u>3 785</u>
	<u><u>932 199</u></u>	<u><u>1 239 883</u></u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED BALANCE SHEET (cont'd)

as at March 31, 2009

(in thousands of dollars)

	2009	2008 Adjusted (Note 3)
LIABILITIES		
Current liabilities		
Bank overdraft	1 582	
Bank loans (Note 19)	1 332 676	916 391
Accounts payable (Note 20)	6 923	7 606
Deferred provincial contribution (Note 21)	288	1 205
Participants' accounts – AgriInvest Program	40 174	25 024
Deferred participants' accounts – AgriStability Program	14 283	10 921
Owed to the Funds (Note 22)	17 200	364 729
Owed to the Government of Canada	100	144
Owed to the Gouvernement du Québec (Note 23)	1 327	1 509
Provision for AgriStability Program (Note 6)	68 885	107 285
Provision for AgriInvest Program	69 454	60 651
Provision for Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome		5 500
Provision for vacation pay	5 039	4 874
	<u>1 557 931</u>	<u>1 505 839</u>
Owed to the Gouvernement du Québec (Note 23)	4 294	4 294
Provision for sick leave (Note 24)	<u>14 642</u>	<u>14 995</u>
	1 576 867	1 525 128
CUMULATED DEFICIT	<u>(644 668)</u>	<u>(285 245)</u>
	<u>932 199</u>	<u>1 239 883</u>

COMMITMENTS (Note 25)

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
 Rénaud Boucher, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended March 31, 2009

(in thousands of dollars)

	2009	2008 Adjusted (Note 3)
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	(359 423)	(198 478)
Items not affecting cash flows:		
Amortization of capital assets	1 260	1 319
Gain on sale of capital assets	(2)	(6)
Loss in value on investments in ABCP	1 094	13 879
Share of the loss of Capital Financière agricole inc.	5 543	2 607
	<u>(351 528)</u>	<u>(180 679)</u>
Change in non-cash items related to operations:		
Accounts receivable and accrued interest	(23 929)	41 002
Receivable from Capital Financière agricole inc.	(3 959)	(751)
Funds' receivable	243 171	(344 713)
Gouvernement du Québec receivable	1 671	1 672
Government of Canada receivable	82 590	(8 317)
Assets intended for sale		403
Accounts payable	(601)	(4 269)
Deferred provincial contribution	(917)	257
Deferred participants' contribution - AgriStability Program	3 362	4 117
Government of Canada deposit - AgriInvest Program	26 754	50 749
Deposit from La Financière agricole to the AgriInvest Program	9 426	
Interest deposited in the AgriInvest Program	475	
Participants' withdrawal - AgriInvest Program	(21 505)	(25 725)
Owed to the Funds	(347 529)	302 759
Owed to the Gouvernement du Québec	(182)	(13 186)
Owed to the Government of Canada	(44)	(687)
Provision for AgriStability Program	(38 400)	(72 975)
Provision for AgriInvest Program	8 803	60 651
Provision for Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome	(5 500)	5 500
Provision for vacation time	165	(66)
Provision for sick leave	(353)	407
	<u>(66 502)</u>	<u>(3 172)</u>
Cash flows related to operating activities	<u>(418 030)</u>	<u>(183 851)</u>
INVESTMENT ACTIVITIES		
Cashing of loans	1 648	1 705
Acquisition of capital assets	(1 260)	(1 522)
Gain on sale of capital assets	2	6
	<u>390</u>	<u>189</u>
Cash flows related to investment activities	<u>390</u>	<u>189</u>
Amounts carried forward	<u>(417 640)</u>	<u>(183 662)</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u> Adjusted (Note 3)
Amounts brought forward	<u>(417 640)</u>	<u>(183 662)</u>
FINANCING ACTIVITIES		
Short-term borrowings, cash flows related to financing activities	<u>416 285</u>	<u>270 356</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1 355)	86 694
OPENING CASH AND CASH EQUIVALENTS	4 897	9 703
Long-term reclassification of asset-backed commercial paper	<u>(2 955)</u>	<u>(91 500)</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>587</u></u>	<u><u>4 897</u></u>
Closing cash and cash equivalents include:		
	<u>2009</u>	<u>2008</u>
Cash		114
Short-term borrowings	2 169	4 783
Bank overdraft	<u>(1 582)</u>	
	<u><u>587</u></u>	<u><u>4 897</u></u>
Additional cash-flow information:		
Interest paid	<u>29 358</u>	<u>35 437</u>

Finally, at March 31, 2009, "Accounts payable" included acquisitions of capital assets representing \$52 000 (2008: \$134 000).

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

La Financière agricole du Québec is a legal entity, an agent of the State, incorporated under the *Act respecting La Financière agricole du Québec*, (R.S.Q., c. L-O.1), managed in partnership with the agricultural sector and mandated primarily to support and promote sustainable agricultural and agrifood sector development. It offers agricultural operations income protection, insurance, venture capital, farm/forestry financing products and services adapted to the management of risks inherent in this activity sector.

Moreover, La Financière agricole administers the Farms Income Stabilization Insurance Fund, the Crop Insurance Fund, the Farm Income Stabilization Account Fund and the Fonds d'assurance-prêts agricoles et forestiers, which have separate financial statements. It pays a contribution to the Farm Income Stabilization Insurance Fund and pays the requisite insurance fees to the Fonds d'assurance-prêts agricoles et forestiers.

2. ACCOUNTING POLICIES

For the purposes of the preparation of its consolidated financial statements, the Société relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The key items subject to estimates are the establishment of provisions for the programs, the contribution from the Government of Canada, vacation time and sick leave, as well as the permanent decline in value of investments.

Consolidation perimeter

The consolidated financial statements reflect the accounts of La Financière agricole and its subsidiary, Capital Financière agricole inc., and Financière agricole du Québec – Développement international.

Consolidation method

The accounts of La Financière agricole and Financière agricole du Québec – Développement international are consolidated line by line in the financial statements.

The investment in the government enterprise Capital Financière agricole inc. is accounted for using the modified equity method of accounting on an equity basis. Under this method, the investment is recorded at cost, which is adjusted annually in the share of La Financière agricole in the results of this enterprise, with consideration in the accumulated deficits. This method does not require any harmonization of the accounting conventions of the government enterprise with those of the Société.

Temporary investments

Temporary investments are recorded at the lesser of cost and market value.

Investments

Investments are recorded at cost, reduced by any permanent decline in value.

Assets intended for sale

Assets intended for sale are evaluated at cost.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets are recorded at acquisition cost and amortized over their service life in accordance with the straight-line method and the following rates:

Furniture and equipment	20%
Data processing equipment	33.33%
Weather stations	10%
Computer development	20%

Contributions, allowances and transfer payments

Contributions, allowances and transfer payments are posted to expenditures for the fiscal year when authorized, when the beneficiary has met all the eligibility criteria and the amounts in question can be reasonably estimated.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that La Financière agricole lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is La Financière agricole's policy to present bank balances and short-term investments that are easily convertibles in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, the Société has established its consolidated financial statements using the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The Société previously used the CICA handbook for the private sector. The consolidated comparative financial statements have been restated to reflect the application of these new standards. The modifications to the accounting conventions are described below.

Financial instruments

According to the current CICA accounting standards for the public sector, no specific standard exists in respect of financial instruments. The information previously presented in this regard has thus been withdrawn. Moreover, investments are recognized at acquisition cost reduced by any permanent decline in value. They were previously recorded at their fair value.

Consolidation method

According to the current CICA accounting standards for the public sector, an investment in a government enterprise is recorded according to the modified equity method of accounting. Thus, the accounts of Capital Financière agricole inc. are, starting with this fiscal year, accounted for according to this method. They were previously consolidated line by line. The information previously presented resulting from the line-by-line consolidation has thus been withdrawn.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

3. CHANGE IN ACCOUNTING POLICIES

Impact of the adoption of public sector standards

The consolidated financial statements dated March 31, 2008 have been adjusted to take into account these modifications, which have increased (reduced) the following items in the financial statements:

	As at March 31, 2008 (as presented)	Impact of the accounting change	As at March 31, 2008 (adjusted)
Consolidated balance sheet			
Current assets	1 136 327	(2 438)	1 133 889
Receivable from Capital Financière agricole inc.		477	477
Gouvernement du Québec receivable	967		967
Loans	4 100	526	4 626
Investments	96 587	(448)	96 139
Capital assets	3 786	(1)	3 785
	<u>1 241 767</u>	<u>(1 884)</u>	<u>1 239 883</u>
Current liabilities	1 505 955	(116)	1 505 839
Owed to the Gouvernement du Québec	4 294		4 294
Provision for sick leave	15 077	(82)	14 995
Non-controlling shareholder's share	2 004	(2 004)	
Cumulated deficit	(285 563)	318	(285 245)
	<u>1 241 767</u>	<u>(1 884)</u>	<u>1 239 883</u>

Consolidated operations

Revenues	661 856	(973)	660 883
Expenses			
Administrative fees	56 878	(934)	55 944
Unrealized decline in value on investments in ABCP	16 180	(16 180)	
Unrealized decline in value on loans and other investments	209	(209)	
Realized decline in value on investments	235	(235)	
Decline in value on investments in ABCPs		13 879	13 879
Share in satellite corporation losses	203	(203)	
Non-controlling shareholder's share	(287)	287	
Share of the loss of Capital Financière agricole inc.		2 607	2 607
Deficiency of revenues over expenses	(198 493)	15	(198 478)

4. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The Québec Minister of Agriculture, Fisheries and Food and La Financière agricole du Québec signed a seven-year agreement, initially expiring March 31, 2008 but extended to March 31, 2010, under which the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec pays an annual amount of \$305 million to and for the benefit of La Financière agricole. Section 5.2 of this agreement stipulates that as of April 1, 2006, the parties would take steps to reach a new agreement. As at March 31, 2009, discussions concerning the establishment of the new agreement are still under way.

The Ministère des Ressources naturelles et de la Faune du Québec pays an annual amount of \$1 400 M on behalf of and for La Financière agricole du Québec under an agreement that is renewed annually.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

4. GOUVERNEMENT DU QUÉBEC CONTRIBUTION (cont'd)

	2009	2008
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec contribution under: agreement:		
special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome:	305 000	305 000
- Phase I	(163)	15 254
- Phase II	1 222	659
programme d'aide spéciale aux fromageries	30	
Ministère des Ressources naturelles et de la Faune du Québec contribution	1 400	1 400
	<u>307 489</u>	<u>322 313</u>

On May 31, 2006, La Financière agricole asked for a one-time contribution of \$218.6 million from the Québec Minister of Agriculture, Fisheries and Food under Section 3.4 of the agreement, corresponding to the exceptionally unfavourable circumstances that prevailed in slaughter beef and grain sectors, which had a significant impact on the La Financière agricole's financial framework. In August 2007, La Financière agricole transmitted an amended request for \$251 million to the Minister.

At March 31, 2009, La Financière agricole had not received the Gouvernement du Québec's response regarding the potential payment of this contribution.

5. GOVERNMENT OF CANADA CONTRIBUTION

	2009	2008
Federal-provincial-territorial framework agreement on a strategic farm and agrifood framework for the 21st century:		
production insurance for:		
contribution to the insurance plan	24 602	24 469
contribution to administration	9 871	9 607
AgriStability Program for:		
contribution to program	64 665	106 813
contribution to administration	4 062	4 876
AgriInvest Program for:		
contribution to program	24 512	17 160
contribution to administration	1 952	421
provincial programs		4 700
	<u>129 664</u>	<u>168 046</u>
Canada-Québec agreement on start-up contribution and transitional assistance for the AgriInvest Program for:		
start-up contribution and transitional assistance	3 823	73 680
contribution to administration	389	957
	<u>4 212</u>	<u>74 637</u>
Amounts carried forward	<u>133 876</u>	<u>242 683</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

5. GOVERNMENT OF CANADA CONTRIBUTION (cont'd)

	2009	2008
Amounts brought forward	133 876	242 683
Canada-Québec agreement on cost of production compensation for:		
contribution to cost of production compensation program	32	44 403
contribution to administration		420
	32	44 823
Canada-Québec agreement on the CAIS transition initiative for inventory evaluation for:		
contribution to the Farm Income Stabilization Insurance Program	335	
contribution to the Canadian Agricultural Income Stabilization Program	(1 047)	
contribution to administration	29	69
	(683)	69
	133 225	287 575

The federal contribution was allocated to the following programs:

	2009	2008
Farm Income Stabilization Insurance Program	335	
Crop Insurance Program	34 473	34 076
AgriStability Program	67 709	111 758
AgriInvest Program	30 676	92 218
Cost of Production Compensation Program	32	44 823
Other programs		4 700
	133 225	287 575

6. AGRISTABILITY PROGRAM

The estimated provision for this program and the related Government of Canada contribution are subject to some uncertainty. These estimates could change substantially in the future should the information taken into consideration by management to establish the measurements change significantly. Actual program spending may be higher or lower than the estimated amount since the measurement is made before all of the information needed to process a claim is validated.

7. SPECIAL FEDERAL PROGRAMS

	2009	2008
Cost of Production Compensation Program	31	44 403
Net income stabilization account		3
	31	44 406

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

8. OTHER PROGRAMS

	2009	2008
Agroenvironmental and agricultural-environment wildlife habitat development incentive measures program	36	26
Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome – Phase I	(163)	15 254
Supplemental maple product stocks stabilization program	3 284	3 565
	<u>3 157</u>	<u>18 845</u>

9. ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	44 266	43 271
Transport and communication	3 563	3 624
Rent	3 509	3 407
Professional and administrative services	3 175	3 144
Materials and supplies	797	768
Maintenance and repairs	265	411
Amortization of capital assets	1 260	1 319
	<u>56 835</u>	<u>55 944</u>

Administrative expenses break down as:

	2009	2008
Farm Income Insurance Stabilization Program	7 615	7 328
Crop Insurance Program	16 452	16 012
AgriStability Program	8 124	9 212
AgriInvest Program	3 154	1 378
Forest and Farm Financing	20 657	20 879
Farm Income Stabilization Account	22	43
Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome	136	247
Programme d'aide spéciale aux fromageries	106	
CAIS transition initiative for inventory evaluation	29	69
Cost of Production Compensation Program		420
Capital Financière agricole inc.	147	226
Financière agricole du Québec – International development	393	130
	<u>56 835</u>	<u>55 944</u>

10. GENERAL RESERVE

La Financière agricole du Québec set up a general reserve to cover the risks related to its future contribution to the Farm Income Stabilization Insurance Program. Although the terms and conditions stipulated in the program's rate-setting methodology establish the general reserve at \$86 816 000 at March 31, 2009 (2008: \$87 670 000), the latter may not exceed the surplus at this date. The general reserve was zero at March 31, 2008 and 2009.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

11. SHORT-TERM INVESTMENTS

	2009	2008
Asset-backed commercial paper		4 647
Caisse de dépôt et placement du Québec:		
Demand deposits, 0.73%	2 169	136
	<u>2 169</u>	<u>4 783</u>

12. RECEIVABLE FROM THE CAPITAL FINANCIÈRE AGRICOLE INC.

	2009	2008
Interest-free, no repayment terms		2
Bearing interest at the rate of 0.70%, maturing up to April 27, 2009	4 300	505
Interest-free, repayable annually up to a maximum of the positive margin of the subsequent year	643	477
	4 943	984
Short-term payments receivable	(4 300)	(507)
	<u>643</u>	<u>477</u>

13. FUNDS RECEIVABLE

	2009	2008
Farm Income Stabilization insurance Fund:		
Bearing interest at rates varying between 0.8% and 1.24%, maturing up to April 30, 2009	709 558	952 756
Farm Income Stabilization Account		
Interest-free, no repayment terms	27	
	<u>709 585</u>	<u>952 756</u>

14. GOUVERNEMENT DU QUÉBEC RECEIVABLE

	2009	2008
Accumulated sick leave paid by the Gouvernement du Québec	968	2 639
Payments receivable in the short-term	(919)	(1 672)
	<u>49</u>	<u>967</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

15. GOVERNMENT OF CANADA RECEIVABLE

	2009	2008
Federal-Provincial-Territorial framework agreement on the farm and agrifood strategic framework for the 21st century on:		
Production insurance	2 783	93
AgriStability Program	54 720	123 657
AgriInvest Program	27 570	18 538
Canada-Québec agreement on the CAIS transition initiative for inventory evaluation	2 098	5 103
Canada-Québec agreement on the contribution for start-up and transitional assistance for AgriInvest	545	22 780
Canada agreement on cost of production compensation		135
	<u>87 716</u>	<u>170 306</u>

16. LOANS

	2009	2008
Bearing interest at rates ranging from 2.5% to 8%	3 929	5 577
Short-term payments receivable	(709)	(951)
	<u>3 220</u>	<u>4 626</u>
Balance of loans maturing in		
less than 1 year	66	129
between 1 and 5 years	948	800
5 years and more	2 915	4 648
	<u>3 929</u>	<u>5 577</u>

Principal and interest are guaranteed by the Gouvernement du Québec's Consolidated Revenue Fund or the Farm and Forestry Loan Insurance Fund. These loans were granted under the Farm Credit Act and the Forestry Credit Act, which were no longer effective as of August 10, 1988 and June 29, 1984 respectively, and will mature no later than 2019 and 2038.

17. INVESTMENTS

	2009	2008
Asset-backed commercial paper (ABCP)		
issued by third parties	79 482	77 621
Investment in Capital Financière agricole inc.	12 975	18 518
	<u>92 457</u>	<u>96 139</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

17. INVESTMENTS (cont'd)**Asset-back commercial paper (ABCP) issued by third parties**

As at August 13, 2007, La Financière agricole du Québec held investments in the Canada asset-backed commercial paper (ABCP) market not guaranteed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset Backed Commercial Paper approved a proposed agreement to restructures the series linked to the ABCP issued by 20 trust companies.

On April 15, 2008, the holders of ABCP voted in favour of the restructuring plan, whose implementation was finalized on January 21, 2009.

In accordance with the restructuring plan, the ABCP concerned was replaced by long-term variable-rate notes combined with maturity dates more closely aligned with the maturity dates of the underlying assets. The plan also makes provision, in certain cases, for the grouping together of certain assets and the creation of new margin financing facilities to support any call for a guarantee that might arise.

The ABCP series concerned, wholly or partially supported by synthetic assets, were grouped together into the following master asset vehicles (1 and 2):

- master asset vehicle 1 (MAV1) is a newly formed vehicle for investors who have decided to commit their proportional share of a margin financing facility linked to their underlying assets;
- master asset vehicle 2 (MAV2) is a newly formed vehicle for investors who have decided to commit less than their proportional share of a margin financing facility (or no share), in which case the remaining portion will be financed by third parties.

The margin financing facilities in MAV1 and MAV2 are provided by various lenders. These facilities are designed to reduce the risk that the new vehicles are unable to contend with margin calls should future circumstances warrant them. Moreover, a moratorium prevents margin calls for a period of 18 months.

From the standpoint of the contribution of assets supported by the margin financing facility for MAV1 and MAV2, the investors received a combination of Class A-1, A-2, B and C notes combined with an anticipated maturity date in December 2016. The Class A-1 and A-2 notes received final credit rating of "A." Assets ineligible in MAV1 and MAV2 were separated and the bearers of notes holding the series of ABCP partly guaranteed by ineligible assets received tracking notes for the ineligible assets that reflect the yield of the underlying individual asset.

A newly formed vehicle that isolates each series guaranteed exclusively by bricks-and-mortar assets or 100% ineligible assets has been created under the name master asset vehicle 3 (MAV3). Two main classes of notes were created in MAV3, i.e. tracking notes for bricks-and-mortar assets, and tracking notes for ineligible assets. All of the notes are tied to the net yield and maturity dates of their respective underlying assets.

On January 21, 2009, La Financière agricole received MAV2 and MAR3 notes whose total face value stood at \$90 988 thousand following the restructuring of the ABCP.

Given that there is no active market for the ABCP securities included in the plan, management has estimated the amount of ABCP that it will be able to subsequently recover on the face value. Accordingly, the Société has recognized a permanent decline in value of \$1 094 thousand for the fiscal year ended March 31, 2009 (2008: \$13 879 thousand). Management is of the opinion that the estimate is reasonable and is the most appropriate one as at March 31, 2009 according to the information available to date. The loss in value is estimated using an evaluation technique that takes into account the quality of the credit of the underlying assets, certain assumptions and probabilities. It also takes into account the subordination sequence of the notes: C notes are subordinate to B notes, B notes are subordinate to A-2 notes, and A-2 notes are subordinate to A-1 notes. This waterfall structure is designed to ensure that the subordinated tranches absorb the initial losses so as to immunize the superior tranches. Given the waterfall structure, the C and B notes absorb the biggest drops in value. In December 2008, DBRS issued the rating A to A-1 and A-2 notes but did not provide a credit rating for B and C notes.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

17. INVESTMENTS (cont'd)**Asset-backed commercial paper (ABCP) issued by third parties (cont'd)**

At March 31, 2009, La Financière agricole holds the following ABCP securities:

	Face value	Book value
ABCP included in the restructuring plan:		
MAV2		
Class A-1	29 028	29 028
Class A-2	31 436	31 385
Class B	5 706	
Class C	2 046	
Ineligible assets	7 732	2 977
VAC3		
Bricks-and-mortar assets	5 597	4 328
Ineligible assets	9 443	8 809
	<u>90 988</u>	<u>76 527</u>
ABCP excluded from the restructuring plan	<u>2 955</u>	<u>2 955</u>
	<u><u>93 943</u></u>	<u><u>79 482</u></u>

As at March 31, 2008, La Financière agricole held the following ABCP securities issued by third parties and in the process of restructuring:

	Face value	Book value
Synthetic and hybrid assets	70 100	61 478
Traditional assets	14 555	13 405
High-risk assets	6 845	2 738
	<u><u>91 500</u></u>	<u><u>77 621</u></u>

Class A-1, A-2 and B notes bear interest at the bankers' acceptances rates less 0.50%. The interest on Class B notes is cumulative and is payable only when the capital and interest on A-1 and A-2 notes has been fully paid. Class C notes bear interest at the bankers' acceptances rates plus 20%. This interest is cumulative and is payable only when the capital and interest on A-1, A-2 and B notes has been fully paid.

Notes in respect of bricks-and-mortar assets and ineligible assets bear interest at a rate that will be adjusted according to the yield on the underlying assets.

Back interest

On January 21 and May 14, 2009, the Société received accrued interest, net of restructuring fees, for the period included between the date of purchase and January 21, 2009. This interest is recognized in this fiscal year.

The accrued interest on new notes as at March 31, 2009 has not been recorded.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

18. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Furniture and equipment	732	474	258
Data processing equipment	2 522	1 959	563
Weather stations	782	124	658
Computer development	8 530	6 306	2 224
	<u>12 566</u>	<u>8 863</u>	<u>3 703</u>
			<u>3 785</u>

19. SHORT-TERM BORROWINGS

	2009	2008
Banker's acceptances – financial institutions, 0.61% to 0.67%, maturing up to April 17, 2009	99 982	149 645
Discount notes, 0.7% to 3.18%, maturing up to April 30, 2009	744 594	680 296
Notes at par value – Gouvernement du Québec Financing Fund, 0.7% to 1.15%	488 100	86 450
	<u>1 332 676</u>	<u>916 391</u>

Pursuant to Order-in-Council 1040-2008 of the Gouvernement du Québec dated October 29, 2008, the Société is authorized to contract short-term loans from financial institutions and other lenders or from the Financing Fund of the Gouvernement du Québec up to a maximum of \$1 510 million maturing April 30, 2009 (2008: \$1 082 million). The total amount of temporary borrowings does not exceed the authorized amount.

At March 31, 2009, the Corporation held financial agreements with four financial institutions and the Financing Fund for authorized amounts totalling \$3 320 million (2008: \$2 529 million) and \$1 510 million (2008: \$1 082 million).

20. ACCOUNTS PAYABLE

	2009	2008
AgriStability Program	171	205
Contribution to payment of interest	492	1 018
Subsidy – Young farmers' financial support program	2 649	2 612
Salaries and fringe benefits	910	877
Suppliers	1 477	1 830
Interest on short-term borrowings	489	76
Other	735	988
	<u>6 923</u>	<u>7 606</u>

21. DEFERRED PROVINCIAL CONTRIBUTION

The deferred provincial contribution represents the unused contribution of Component II of the Special assistance program for hog operations affected by the postweaning multisystemic wasting syndrome.

LA FINANCIÈRE AGRICOLE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

22. OWED TO THE FUNDS

	2009	2008
Farm Income Stabilization Insurance Fund:		
Note payable		336 125
Interest-free, no repayment terms	7 413	3 891
	7 413	340 016
Crop Insurance Fund:		
Bearing interest at a rate of 0.654 %, maturing on April 23, 2009	7 600	22 744
Interest-free, no repayment terms	1 537	592
	9 137	23 336
Farm Income Stabilization Account Fund:		
Bearing interest at a rate of 0.649%, maturing on April 15, 2009	650	1 377
	17 200	364 729

23. OWED TO THE GOUVERNEMENT DU QUÉBEC

	2009	2008
Interest-free, no repayment terms	5 621	5 803
Portion maturing in the short-term	(1 327)	(1 509)
	4 294	4 294

24. PROVISION FOR SICK LEAVE

	2009	2008
Opening balance	14 995	14 588
Annual expenses	507	1 209
Benefits paid	(860)	(802)
Closing balance	14 642	14 995

Description

The Société has a sick leave accumulation program, which engenders long-term obligations whose costs the Société fully assumes.

The sick leave accumulation program allows employees to accumulate the unused sick leave days to which they are entitled each year and to cash out the leave at 50% in the event of termination of employment, retirement or death, up to a maximum amount representing the equivalent of 66 days. The employees may also choose to use the sick leave accumulated as fully paid leave days in the event of early retirement. The program is not now subject to capitalization to cover payment.

The obligations of the sick leave accumulation program are increasing as the employees render services to the Société. The value of this obligation is established by means of a method that breaks down the cost of this program over the duration of the active careers of the employees.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

24. PROVISION FOR SICK LEAVE (cont'd)**Subsequent evaluations and estimates**

The sick leave accumulation program has been updated, by age stratum, based, in particular, on the following long-term estimates and economic assumptions as at March 31, 2009:

Indexation rate ranging from 3.1% to 3.85%

Capitalization rate ranging from 2.87% to 5.43%

Average remaining service period of active employees ranging from 5 to 32 years.

25. COMMITMENTS

La Financière agricole commitments under the Young farmers' financial support program, as capital subsidies posted to fiscal years ending March 31, 2010 and 2011, total \$8 515 000 (2008: \$7 966 000).

Commitments under the Centre d'études sur les coûts de production en agriculture are \$1 300 000 for the next fiscal year. The amount granted for this year is \$1 300 000.

Commitments under the Supplemental maple stocks stabilization program as financial assistance totalled \$3 783 000 at March 31, 2009 (2008: \$2 990 000).

26. PENSION PLANS

La Financière agricole staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

La Financière agricole contributions charged to the year-end statement totalled \$2 325 K (2008: \$2 022 K). Its liability towards these Government plans is restricted to its employer contributions.

27. RELATED PARTY TRANSACTIONS

The main related party transactions are as follows, with the exception of fund operations, presented separately in the consolidated financial statements:

	2009	2008
Rent - Société immobilière du Québec	3 413	3 334
Supplies and communication – Centre des services partagés du Québec	1 323	1 446
Contribution to financing organizations – Centre d'études sur les coûts de production en agriculture	1 300	1 100

In addition to the related party transactions disclosed in its consolidated statements and measured at exchange value, La Financière agricole is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. La Financière agricole did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the consolidated financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

28. COMPARATIVE FIGURES

Certain figures from previous fiscal years were reclassified for consistency with this year.

MANAGEMENT'S REPORT

The financial statements of La Financière agricole du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

La Financière agricole du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it, and with various Canada-Québec agreements. At least every five years, it must conduct an actuarial analysis of its operations and collate any information useful for setting contribution rates for the insurance or farm income protection program.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the consolidated financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the consolidated financial statements of La Financière agricole du Québec in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

On behalf of La Financière agricole du Québec,
Jacques Brind'Amour, President and Chief Executive Officer
Jean-François Brouard, Vice-President, Corporate Affairs

Lévis, May 22, 2009

LA FINANCIÈRE AGRICOLE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the consolidated balance sheet of La Financière agricole du Québec as at March 31, 2009, the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of La Financière agricole du Québec as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the changes in accounting policies resulting from the adoption of accounting principles for the public sector, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 22, 2009

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., c. L-O.1)
FARM INCOME STABILIZATION INSURANCE FUND

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Participants' contributions (Note 3)	255 865	161 644
La Financière agricole du Québec contribution (Note 3)	511 729	323 287
Interest and investment income	<u>721</u>	<u>101</u>
	<u>768 315</u>	<u>485 032</u>
EXPENSES		
Compensation to participants (Note 3)	835 610	632 143
Interest – La Financière agricole du Québec	18 396	35 535
Other	<u>80</u>	<u>49</u>
	<u>854 086</u>	<u>667 727</u>
DEFICIENCY OF REVENUES OVER EXPENSES	(85 771)	(182 695)
OPENING CUMULATED DEFICIT	<u>(779 681)</u>	<u>(596 986)</u>
CLOSING CUMULATED DEFICIT	<u><u>(865 452)</u></u>	<u><u>(779 681)</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION INSURANCE FUND****BALANCE SHEET**

as at March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	1 211	21
Accounts receivable and accrued interest	14 354	3 565
La Financière agricole du Québec contribution receivable (Note 5)	7 413	340 016
Advances to participants (Note 9)	<u>24 735</u>	<u>94 462</u>
	<u>47 713</u>	<u>438 064</u>
LIABILITIES		
Current liabilities		
Accounts payable (Note 7)	54 335	73 795
Owed to La Financière agricole du Québec (Note 8)	709 558	952 756
Deferred participants' contributions	57 706	94 883
Provision for compensation	<u>91 566</u>	<u>96 311</u>
	913 165	1 217 745
CUMULATED DEFICIT (Note 13)	<u>(865 452)</u>	<u>(779 681)</u>
	<u>47 713</u>	<u>438 064</u>

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
 Rénaud Boucher, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC**CROP INSURANCE FUND****STATEMENT OF OPERATIONS AND EQUITY**

for the year ended March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Participants' contributions	27 102	27 918
La Financière agricole du Québec contribution	41 709	41 777
Government of Canada contribution		3 184
Interest and investment income	<u>1 670</u>	<u>8 916</u>
	<u>70 481</u>	<u>81 795</u>
EXPENSES		
Compensation to participants	79 760	43 055
Unrealized decline in value on investments in ABCPS (Note 6)	7 301	3 182
Unrealized decline in value on other investments	15 238	4 027
Interest	<u>12</u>	<u>53</u>
	<u>102 311</u>	<u>50 317</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>(31 830)</u>	<u>31 478</u>
OPENING EQUITY	<u>106 839</u>	<u>75 361</u>
CLOSING EQUITY	<u><u>75 009</u></u>	<u><u>106 839</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC**CROP INSURANCE FUND****BALANCE SHEET**

as at March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	137	74
Short-term investments (Note 4)	7 283	1 052
Accounts receivable and accrued interest	896	592
La Financière agricole du Québec contribution receivable (Note 5)	<u>9 137</u>	<u>23 336</u>
	17 453	25 054
Investments (Note 6)	<u>62 129</u>	<u>87 277</u>
	<u><u>79 582</u></u>	<u><u>112 331</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	294	65
Deferred participants' contributions	637	525
Provision for compensation	<u>3 642</u>	<u>4 902</u>
	4 573	5 492
EQUITY	<u>75 009</u>	<u>106 839</u>
	<u><u>79 582</u></u>	<u><u>112 331</u></u>

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO

Rénaud Boucher, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC**FARM INCOME STABILIZATION ACCOUNT FUND****STATEMENT OF CHANGE IN FUND BALANCE**

for the year March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	1 380	2 227
Interest distributed in participant accounts	13	33
Participants' withdrawals	<u>(755)</u>	<u>(880)</u>
CLOSING BALANCE	<u>638</u>	<u>1 380</u>

BALANCE SHEET
 as at March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	15	3
La Financière agricole du Québec contribution receivable (Note 5)	<u>650</u>	<u>1 377</u>
	<u>665</u>	<u>1 380</u>
LIABILITIES		
Current liabilities		
Owed to La Financière agricole du Québec, interest-free, no repayment terms	27	
Participants' accounts	<u>638</u>	<u>1 380</u>
	<u>665</u>	<u>1 380</u>

SUBSEQUENT EVENT (Note 12)

The notes are an integral part of these financial statements.

Jacques Brind'Amour, President and CEO
 Rénaud Boucher, Chairman of the Board of Directors

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2009
 (in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Farm Income Stabilization Insurance Fund and the Crop Insurance Fund are trust estates and the Farm Income Stabilization Account Fund is a fiduciary fund pursuant to the *Act respecting La Financière agricole du Québec* (R.S.Q., c. L-O.1) in order to administer the attendant programs.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main items subject to estimates are the establishment of provisions for compensation and the fair value of certain financial instruments.

Cash flow statements

The statements of cash flows for the funds are not shown as they would not provide additional useful information on cash flows during the year.

Financial instruments

a) Initial measurement

Financial instruments are recognized at the fair value the date of the transaction.

b) Categories of financial instruments and subsequent measurement

Assets and liabilities held for transaction purposes

The assets and liabilities held for transaction purposes are financial instruments acquired or transferred primarily for resale or repurchase in the short term. They belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking. Assets and liabilities not respecting the above-mentioned criteria may be irrevocably designated by management as held for transaction purposes.

The assets and liabilities held for transaction purposes are measured at their fair value and the gains and losses resulting from their reassessment at fair value are posted to operations.

Financial assets include cash, short-term investments and accounts receivable and accrued interest, and amounts receivable from La Financière agricole. Financial liabilities include expenses payable and amounts owing to La Financière agricole. Management also irrevocably designated long-term investments for transaction purposes.

c) Disclosure and presentation

The Funds have chosen to continue applying the standards stipulated in Chapter 3861, "Financial Instruments – Disclosure and Presentation" instead of applying the new chapters 3862, "Financial Instruments – Disclosure" and 3863, "Financial Instruments – Presentation", as the Accounting Standards Board has allowed certain entities to do since February 2009.

Fair value

Fair value is the amount at which the financial instruments could be knowingly and voluntarily negotiated between the parties. The fair value is established using price from an active market. If this is not the case, the fair value is based on market prices prevailing for financial instruments with similar characteristics and risk profiles or internal/external measurement models using data that are observable on the market.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Contributions and compensation

Contributions and compensation from the Farm Income Stabilization Insurance Program and allowances under the Crop Insurance Program are posted to revenues or expenses for the fiscal year in which the insurance year ends.

The year 2008 was used for the Crop Insurance Program. For the different productions covered by the Farm Income Stabilization Insurance Program, the insurance years used are presented in Note 13.

3. CONTRIBUTIONS AND COMPENSATION

Participants participate in both the Farm Income Stabilization Program and the AgriStability Program administered by La Financière agricole, two programs designed to stabilize a farm operation's income. To avoid duplicating payment of a government contribution, the amounts granted under one program are taken into account for payments under the other.

Compensations in the amount of \$984 021 M (2008: \$915 727 M) and contributions of \$916 005 M (2008: \$768 515 M) were reduced respectively by \$148 411 M (2008: \$283 584 M) following payments under the AgriStability Program. These reductions may be higher or lower than the estimated amount since they are inherent in the AgriStability Program.

4. SHORT-TERM INVESTMENTS

	<u>2009</u>	<u>2008</u>
Note		1 047
Third-party asset-backed commercial paper (ABCP), 3.03% maturing May 4, 2009	5 996	
Caisse de dépôt et placement du Québec: Demand deposits, 0.73%	<u>1 287</u>	<u>5</u>
	<u><u>7 283</u></u>	<u><u>1 052</u></u>

5. OWED TO THE FUNDS

	<u>2009</u>	<u>2008</u>
Farm Income Stabilization Insurance Fund:		
Note		336 125
Interest-free, no repayment terms	<u>7 413</u>	<u>3 891</u>
	<u><u>7 413</u></u>	<u><u>340 016</u></u>
Crop Insurance Fund:		
Bearing interest at a rate of 0.654 %, maturing on April 23, 2009	7 600	22 744
Interest-free, no repayment terms	<u>1 537</u>	<u>592</u>
	<u><u>9 137</u></u>	<u><u>23 336</u></u>
Farm Income Stabilization Account Fund:		
Bearing interest at a rate of 0.649%, maturing on April 15, 2009	<u><u>650</u></u>	<u><u>1 377</u></u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
(in thousands of dollars)

6. INVESTMENTS

	2009	2008
Third-party asset-backed commercial paper (ABCP)	12 767	20 068
Participation deposits	49 362	67 209
	<u>62 129</u>	<u>87 277</u>

Asset-backed commercial paper (ABCP) included in the restructuring plan

As at August 13, 2007, the Crop Insurance Fund held investments in the Canadian asset-backed commercial paper (ABCP) market not guaranteed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset Backed Commercial Paper approved a proposed agreement to restructure the series linked to the ABCP issued by 20 trust companies.

On April 15, 2008, the holders of ABCP voted in favour of the restructuring plan, whose implementation was finalized on January 21, 2009.

In accordance with the restructuring plan, the ABCP concerned was replaced by longer-term variable-rate notes combined with maturity dates more closely aligned with the maturity dates of the underlying assets. The plan also makes provision, in certain cases, for the grouping together of certain assets and the creation of new margin financing facilities to support any call for a guarantee that might arise.

The ABCP series concerned, wholly or partially supported by synthetic assets, were grouped together into the following master asset vehicles (1 and 2):

- master asset vehicle 1 (MAV1) is a newly formed vehicle for investors who have decided to commit their proportional share of a margin financing facility linked to their underlying assets;
- master asset vehicle 2 (MAV2) is a newly formed vehicle for investors who have decided to commit less than their proportional share of a margin financing facility (or no share), in which case the remaining portion will be financed by third parties.

The margin financing facilities in MAV1 and MAV2 are provided by various lenders and are designed to reduce the risk of the new vehicles' being unable to contend with margin calls should future circumstances warrant them. Moreover, a moratorium prevents margin calls for a period of 18 months.

From the standpoint of the contribution of assets supported by the margin financing facility for MAV1 and MAV2, the investors received a combination of Class A-1, A-2, B and C notes combined with an anticipated maturity date in December 2016. The Class A-1 and A-2 notes received a final credit rating of "A." Assets ineligible in MAV1 and MAV2 were separated and the bearers of notes holding the series of ABCP partly guaranteed by ineligible assets received tracking notes for the ineligible assets that reflect the yield of the underlying individual asset.

A newly formed vehicle that isolates each series guaranteed exclusively by bricks-and-mortar assets or 100% ineligible assets has been created under the name master asset vehicle 3 (MAV3). Two main categories of notes were created in MAV3, i.e. tracking notes for bricks-and-mortar assets, and tracking notes for ineligible assets. All of the notes are tied to the net yield and maturity dates of their respective underlying assets.

On January 21, 2009, the Crop Insurance Fund received MAV2 notes whose total face value stood at \$23 039 thousand following the restructuring of the ABCP.

A subordination sequence is built into the notes: C notes are subordinate to B notes, B notes are subordinate to A-2 notes, and A-2 notes are subordinate to A-1 notes. This waterfall structure is designed to ensure that the subordinated tranches absorb the initial losses so as to immunize the superior tranches. Given the waterfall structure, the C and B notes absorb the biggest drops in value. In December 2008, DBRS issued the rating A to A-1 and A-2 notes but did not provide a credit rating for B and C notes.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
(in thousands of dollars)

6. INVESTMENTS (cont'd)

Given that there is no active market for the ABCP securities included in the plan and excluding the ineligible assets whose fair value was deemed to be zero as at March 31, 2009, management has determined, in keeping with the directives of the Canadian Institute of Chartered Accountants, the fair values using updated cash flows. Following the evaluation, an unrealized loss of value of \$7 301 thousand was recorded for the fiscal year ended March 31, 2009 (2008: \$3 182 thousand). Management is of the opinion that the estimate of fair values recorded is reasonable and is the most appropriate as at March 31, 2009. Nevertheless, these fair values are established according to the information available to date, management's assessment of conditions on the financial markets, and assumptions and probabilities. Consequently, the fair values presented may vary significantly in subsequent periods. The possible changes that could appreciably affect the future value of ABCP include (1) changes in the value of the underlying assets, (2) changes in the liquidity of the ABCP market, and (3) the impact of a severe, prolonged economic downturn.

As at March 31, 2009, the Fonds held the following ABCP securities included in the restructuring plan:

	Face value	Fair value
MAV2		8 459
Class A-1	14 025	3 918
Class A-2	6 497	390
Class B	1 179	
Class C	671	
Ineligible assets	667	
	<u>23 039</u>	<u>12 767</u>

As at March 31, 2008, the Fonds held the following ABCP securities issued by third parties and in the process of restructuring:

	Face value	Fair value
Synthetic and hybrid assets	22 575	19 798
High-risk assets	675	270
	<u>23 250</u>	<u>20 068</u>

Class A-1, A-2 and B notes bear interest at the bankers' acceptances rates less 0.50%. The interest on Class B notes is cumulative and is payable only when the capital and interest on Class A-1 and A-2 notes has been fully paid. Class C notes bear interest at the bankers' acceptances rates plus 20%. This interest is cumulative and is payable only when the capital and interest on Class A-1, A-2 and B notes has been fully paid.

Notes in respect of traditional assets and ineligible assets bear interest at a rate that will be adjusted according to the yield on the underlying assets.

Back interest

On January 21 and May 14, 2009, the Fonds received accrued interest net of restructuring fees, for the period included between the date of purchase and January 21, 2009. This interest is recognized in this fiscal year.

The accrued interest on new notes as at March 31, 2009 has not been recorded.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
(in thousands of dollars)

6. INVESTMENTS (cont'd)

Participation deposits

Participation deposits are held in a special Caisse de dépôt et placement du Québec fund and expressed in units, which are repayable pending prior notice according to the Caisse's terms and conditions at the market value of the special fund's net equity at month's end.

The Caisse established the fair value of participation deposits at March 31, 2009 based also on an unrealized decline in value on third-party ABCP investments in the amount of \$2 277 K (2008: \$729 K) held by the special fund.

Management deems the estimated fair value of participation deposits to be reasonable and the most appropriate at March 31, 2009. This estimate is recognized in the quarterly financial statements of the Fonds' special fund created by the Caisse at March 31, 2009. Nevertheless, the fair value presented may vary significantly in subsequent periods, given the presence of third-party ABCP investments in the Fonds' special fund Fonds.

With the framework of the restructuring plan, the Caisse has assumed commitments linked to the ABCP whose share attributed to the Fonds stands at \$2 581 thousand (2008: \$1 968 thousand) with a fair value estimated at a negative amount of \$240 thousand (2008: \$146 thousand).

7. ACCOUNTS PAYABLE

	<u>2009</u>	<u>2008</u>
Contribution credits for amounts received under Canada Québec agreements on:		
the additional federal contribution to the Farm Income Stabilization Insurance Plan	751	751
Transition assistance	91	91
Farm Income Payments Program	60	61
CAIS transition initiative for inventory evaluation	4 593	4 427
Accounts payable	48 840	68 416
Other expenses		49
	<u>54 335</u>	<u>73 795</u>

Credits for contributions are remitted to farm operations when advances and final settlements are paid.

8. DUE TO LA FINANCIÈRE AGRICOLE

	<u>2009</u>	<u>2008</u>
Bearing interest at rates ranging from 0.8% to 1.24% maturing up to April 30, 2009	<u>709 558</u>	<u>952 756</u>

9. ADVANCES TO PARTICIPANTS

Advances to participants represent a portion of the compensation paid as a down payment for those productions whose insurance year ends in a subsequent fiscal year.

	<u>2009</u>	<u>2008</u>
Grain, grain-corn and oilseed producers	24 735	75 940
Apples		10 499
Potatoes		8 023
	<u>24 735</u>	<u>94 462</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
(in thousands of dollars)

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its consolidated statements and measured at exchange value, the fiduciary funds are related to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The fiduciary funds did not do business with these related parties.

11. FINANCIAL INSTRUMENTS

Fair value

The fair value of short-term financial instruments is equivalent to the cost given their close maturity date, with the exception of the non-bank asset-backed commercial paper of the Crop Insurance Fund, whose fair value corresponds to the bid price at the closing quotation on the date of the financial statement and whose cost is \$5 911 thousand.

12. SUBSEQUENT EVENT

On April 8, 2009, the Farm Income Stabilization Account Fund paid the account balance to each participant for a total amount of \$638 thousand, as stipulated by La Financière agricole when it ended the program following the implementation of the Canadian Agricultural Income Stabilization program in 2003.

13. CONTINUITY - FARM INCOME STABILIZATION INSURANCE FUND

<u>Insurable product</u>	Balance surplus (deficit) as at March 31, 2008	<u>Contributions</u>	<u>Allowances</u>	Interest and other charges	Balance surplus (deficit) as at March 31, 2009
Feeder calves	(61 662)	183 408	173 210	647	(52 111)
Slaughter cattle and steers	(47 662)	90 930	72 135	761	(29 628)
Veal calves	(2 710)	30 160	28 661	5	(1 216)
Grain-fed calves	603	19 988	20 552	(67)	106
Piglets	(135 695)	70 187	153 660	3 517	(222 685)
Hogs	(242 196)	117 769	279 470	8 370	(412 267)
Lambs	(3 044)	27 486	27 143	(195)	(2 506)
Potatoes	(1 516)	7 366	13 757	253	(8 160)
Grain, grain-corn and oilseed	(274 624)	205 846	51 284	4 188	(124 250)
Apples	(11 175)	14 454	15 738	276	(12 735)
	<u>(779 681)</u>	<u>767 594</u>	<u>835 610</u>	<u>17 755</u>	<u>(865 452)</u>

<u>Insurable product</u>	<u>Current insurance year</u>	<u>Period covered by insurance year</u>
Feeder calves	2008	January 1, 2008 to December 31, 2008
Slaughter cattle and steers	2008	January 1, 2008 to December 31, 2008
Veal calves	2008	January 1, 2008 to December 31, 2008
Grain-fed calves	2008	January 1, 2008 to December 31, 2008
Piglets	2008	January 1, 2008 to December 31, 2008
Hogs	2008	January 1, 2008 to December 31, 2008
Lambs	2008	January 1, 2008 to December 31, 2008
Potatoes	2007	August 1, 2007 to July 31, 2008
Grain	2007	August 1, 2007 to July 31, 2008
Grain-corn	2007	October 1, 2007 to September 30, 2008
Soybeans	2007	September 1, 2007 to August 31, 2008
Canola	2007	August 15, 2007 to August 14, 2008
Apples	2007	August 15, 2007 to August 14, 2008

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FARM INCOME STABILIZATION INSURANCE FUND
CROP INSURANCE FUND
FARM INCOME STABILIZATION ACCOUNT FUND
TRUSTEE'S REPORT

La Financière agricole du Québec is the trustee of the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account Fund. The Société's management is, therefore, responsible for the preparation and presentation of the funds' financial statements, including estimates and key accounting estimates and adjudications. This responsibility includes the choice of the appropriate accounting conventions, which respect generally accepted accounting principles in Canada. The financial information contained in the rest of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

La Financière agricole du Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it, and with various Canada-Québec agreements. At least every five years, it must conduct an actuarial analysis of its operations and collate any information useful for setting contribution rates for the insurance or farm income protection program.

The board of directors of La Financière agricole du Québec oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the financial statements of the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund and the Farm Income Stabilization Account Fund in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the budgetary monitoring and auditing committee to discuss any matter related to the audit.

For the Farm Income Stabilization Insurance Fund,
the Crop Insurance Fund, and the Farm Income Stabilization Account Fund,

Jacques Brind'Amour, President and Chief Executive Officer
Jean-François Brouard, Vice-President, Corporate Affairs

Lévis, May 22, 2009

LA FINANCIÈRE AGRICOLE DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheets of the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account as at March 31, 2009 and the statement of operations and cumulated deficit of the Farm Income Stabilization Insurance Fund, the statement of operations and equity of the Crop Insurance Fund, and the statement of changes in the balance of the Farm Income Stabilization Account for the year then ended. These financial statements are the responsibility of La Financière agricole management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Farm Income Stabilization Insurance Fund, the Crop Insurance Fund, and the Farm Income Stabilization Account as at March 31, 2009 and the results of their operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 22, 2009

LA FINANCIÈRE AGRICOLE DU QUÉBEC
(R.S.Q., C. L-0.1)
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS
(R.S.Q., c. A-29.1)
STATEMENT OF OPERATIONS AND EQUITY
for the year ended March 31, 2009
(in thousand of dollars)

	<u>2009</u>	<u>2008</u> Restated (Note 3)
REVENUES		
Insurance charges (Note 4)	10 849	10 914
Investment income	<u>3 498</u>	<u>16 610</u>
	<u>14 347</u>	<u>27 524</u>
EXPENSES		
Professional fees	22	1
Change in provision for loan guarantees (Note 6)	8 628	17 277
Decline in value on ABCP investments (Note 7)	<u> </u>	<u>1 405</u>
	<u>8 650</u>	<u>18 683</u>
EXCESS OF REVENUES OVER EXPENSES	<u>5 697</u>	<u>8 841</u>
OPENING EQUITY		
Existing balance	93 440	92 811
Impact of adopting public-sector standards at April 1, 2007 (Note 3)	<u>(17 787)</u>	<u>(25 999)</u>
Restated balance	<u>75 653</u>	<u>66 812</u>
CLOSING EQUITY	<u><u>81 350</u></u>	<u><u>75 653</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

BALANCE SHEET
as at March 31, 2009
(in thousand of dollars)

	<u>2009</u>	<u>2008</u> Restated (Note 3)
ASSETS		
Current assets		
Cash on hand		32
Short-term investments (Note 5)	4 263	8 248
Investment income receivable	<u>533</u>	<u>1 067</u>
	4 796	9 347
Investments (Note 7)	<u>162 930</u>	<u>151 263</u>
	<u><u>167 726</u></u>	<u><u>160 610</u></u>
 LIABILITIES		
Current liabilities		
Bank overdraft	16	
Gouvernement du Québec advance – interest-free, no repayment terms	10 000	10 000
Provision for loan guarantees (Note 6)	<u>76 360</u>	<u>74 957</u>
	86 376	84 957
EQUITY	<u>81 350</u>	<u>75 653</u>
	<u><u>167 726</u></u>	<u><u>160 610</u></u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jacques Brind'Amour, President and Chief Executive Officer
Rénald Boucher, Chairman of the Board

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousand of dollars)

	2009	2008 Restated (Note 3)
OPERATING ACTIVITIES		
Excess of revenues over expenses	5 697	8 841
Items not affecting cash flows:		
Change in allowance for loan guarantees	8 628	17 277
Decline in value on ABCP investments		1 405
	<u>14 325</u>	<u>27 523</u>
Items linked to operations:		
Change in investment income receivable	534	(92)
Repayment of loans to lenders	(7 287)	(7 125)
Recovery of losses	62	273
	<u>(6 691)</u>	<u>(6 944)</u>
Cash flows from operating activities	<u>7 634</u>	<u>20 579</u>
INVESTMENT ACTIVITIES		
Acquisitions of investments, cash flows for investment activities	<u>(11 667)</u>	<u>(23 986)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4 033)	(3 407)
OPENING CASH AND CASH EQUIVALENTS	<u>8 280</u>	<u>11 687</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>4 247</u></u>	<u><u>8 280</u></u>
 Cash and cash equivalents at year-end include:		
Cash		32
Short-term investments	4 263	8 248
Bank overdraft	<u>(16)</u>	
	<u><u>4 247</u></u>	<u><u>8 280</u></u>

The notes are an integral part of these financial statements.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousand of dollars)

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, established under the *Act respecting farm-loan insurance and forestry-loan insurance* (R.S.Q., c. A-29.1), the Fonds d'assurance-prêts agricoles et forestiers (Fund) guarantees lenders repayment of losses in principal and interest resulting from a farm loan or a forestry loan granted on or after August 1, 1978 and of expenses allowable by regulation incurred by lenders to protect their securities or to claim or obtain from the defaulting debtor the sums owing to them or that have become payable on the loan.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Fund gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates are the decline in value on investments and the provision for loan guarantees. Real results may differ from these estimates.

Short-term investments

Short-term investments are reported at cost or market value, whichever is lower.

Investments

Investments are reported at cost minus any permanent decline in value.

Provision for loan guarantees

As a guarantor, the Fund is exposed to the economic uncertainties and risks inherent in agriculture and forestry. Should the economic conditions used to estimate the required provision change, the real losses on guaranteed loans might differ from the estimates made.

The general provision is established using the method of discounting losses considering a failure rate per term and average losses using the maximum term for the type of loan guaranteed at fiscal year-end and an annual discount rate of 6%. This provision includes an implicit margin for unfavourable variance.

The specific provision is established using a case-by-case analysis of the loans insured as at March 31 for which the amount in arrears has been owing for more than 180 days or when circumstances make the possibility of one day collecting the principle and interest doubtful. The specific provision represents the balance of the loan guarantee adjusted by the guarantees' realizable value.

Cash and cash equivalents

It is the Fund's policy to present bank balances and short-term investments that are easily convertible into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, the Fund has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The comparative financial statements have been restated to reflect the first application of these new standards. The changes in accounting policies are described below.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

3. CHANGE IN ACCOUNTING POLICIES (cont'd)

Financial instruments

CICA's public-sector accounting standards contain no specific standards governing financial instruments. Consequently, information disclosed in their regard has been removed. Further, long-term investments are reported at acquisition cost minus any permanent decline in value. Previously, they were reported at their fair value.

Impact of application of public-sector standards

The financial statements as at March 31, 2008 were restated to reflect this change, which increases (decreases) the following Financial statement items:

	At March 31, 2008 (as presented)	Impact of change in accounting policies	At March 31, 2008 (restated)
BALANCE SHEET			
Assets			
Current assets	9 347		9 347
Investments	169 050	(17 787)	151 263
	<u>178 397</u>	<u>(17 787)</u>	<u>160 610</u>
Liabilities			
Gouvernement du Québec advance	10 000		10 000
Provision for loan guarantees	74 957		74 957
Equity	93 440	(17 787)	75 653
	<u>178 397</u>	<u>(17 787)</u>	<u>160 610</u>

RESULTS AND EQUITY

Expenses

Unrealized decline in value on ABCP investments	1 405	(1 405)	
Unrealized decline in value on other investments	8 212	(8 212)	
Loss in value on ABCP investments		1 405	1 405
Excess of revenues over expenses	629	(8 212)	8 841

4. INSURANCE CHARGES

Insurance charges were paid in full by La Financière agricole du Québec, a related, jointly-controlled entity. They correspond to 1.43% of the authorized amount of loans for which the first instalment was paid to the lender in the previous fiscal year and 1.25% of the balance of credit adjudication granted by the lender as at March 31 of the previous year.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

5. SHORT-TERM INVESTMENTS

	2009	2008
Discount note		7 977
Non-bank sponsored ABCP, 3,03%, maturing May 4, 2009	2 992	
Caisse de dépôt et placement du Québec:		
Demand deposits, 0.73%	1 271	271
	<u>4 263</u>	<u>8 248</u>

6. PROVISION FOR LOAN GUARANTEES

	2009	2008
Opening balance	74 957	64 532
Reimbursement of losses to lenders	(7 287)	(7 125)
Recovery of losses	62	273
Change in allowance for loan guarantees	8 628	17 277
Closing balance	<u>76 360</u>	<u>74 957</u>
The closing balance breaks down as:		
Specific provision	24 033	26 160
General provision	52 327	48 797
	<u>76 360</u>	<u>74 957</u>

The provision for loan guarantees reflects the overall portfolio of loans insured as at March 31, 2009, totalling \$4 298.6 million (2008: \$4 257.6 million). As at March 31, 2009, insured loans covered by a specific provision total \$58 million (2008: \$77 million).

Insured loan guarantee

The guarantee's duration corresponds to the remaining duration of the loans insured, which breaks down as:

	2009	2008
Farm financing:		
less than 5 years	412 623	435 623
between 5 and 10 years	1 253 878	1 231 105
between 10 and 15 years	1 499 510	1 505 564
between 15 and 20 years	1 021 273	979 421
20 years and more	16 336	12 929
	<u>4 203 620</u>	<u>4 164 642</u>
Forestry financing:		
less than 5 years	7 297	8 487
between 5 and 10 years	17 107	17 036
between 10 and 15 years	24 223	23 074
between 15 and 20 years	45 934	43 928
20 years and more	422	432
	<u>94 983</u>	<u>92 957</u>
	<u>4 298 603</u>	<u>4 257 599</u>

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

6. ALLOWANCE FOR LOAN GUARANTEES (cont'd)

Insured loan guarantee (cont'd)

The balances in principle and interest of insured loans, for which the Fund reimburses losses and pays related fees, bear interest at the following rates:

	2009	2008
Farm financing:		
less than 4%	95 403	10 535
from 4% to 5.99%	1 699 455	1 628 690
6% and more	975 100	1 906 125
variable rate set according to the terms and conditions of the financing program under which the loan was authorized based on fluctuations in the prime rate	1 433 662	619 292
	<u>4 203 620</u>	<u>4 164 642</u>
Forestry financing:		
less than 5%	7 541	2 242
from 5% to 6.99%	56 655	68 671
7% and more	3 139	11 570
variable rate set according to the terms and conditions of the financing program under which the loan was authorized based on fluctuations in the prime rate	27 648	10 474
	<u>94 983</u>	<u>92 957</u>
	<u>4 298 603</u>	<u>4 257 599</u>

The Fund has certain recourses allowing it to recover, from third parties, amounts paid to lenders once the guarantee is enforced.

The assets held as surety by the lenders are primarily farm or forestry harvesting units, dairy quotas and sureties. The Fund covers the lender's residual loss.

7. INVESTMENTS

	2009	2008
Third-party asset-backed commercial papers (ABCP)	7 995	7 995
Participation deposits, at cost	154 935	143 268
	<u>162 930</u>	<u>151 263</u>

Third-party asset-backed commercial papers (ABCP)

At August 13, 2007, the Fund held investments on the Canadian market for non-bank sponsored asset-backed commercial papers (ABCP).

On December 23, 2007, the Pan-Canadian Investors Committee approved an agreement in principle to restructure the series linked to ABCPs issued by 20 trusts.

On April 25, 2008, ABCP note holders voted in favour of the restructuring plan (Plan), whose implementation was finalized on January 21, 2009.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

7. INVESTMENTS (cont'd)

Third-party asset-backed commercial paper (ABCP) (cont'd)

In keeping with the Plan, the ABCPs in question were replaced by new, longer-term variable-rate notes designed to better correspond to the underlying assets' maturity dates. The Plan also provides, in certain cases, for regrouping certain assets and creating new margin funding facilities to support any security calls that might occur.

The ABCP series in question, underwritten in full or part by synthetic assets, were regrouped into the following master asset vehicles (I and II):

- Master Asset Vehicle I (MAV I) is a newly-created vehicle for investors who have chosen to commit their prorated share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle II (MAV II) is a newly-created vehicle for investors who have chosen to commit less than their prorated share (or no share) of a margin funding facility, in which case the remaining portion will be funded by third parties.

The MAV I and MAV II margin funding facilities are supplied by several lenders. These facilities are designed to reduce the risk that the new vehicles might not be able to face margin calls should future circumstances make them necessary. Further, a moratorium prohibits margin calls for an 18-month period.

Regarding the contribution of assets underwritten by the MAV I and MAV II margin funding facility, investors received a combination of Class A-1, A-2, B and C notes maturing in December 2016. The Class A-1 and A-2 notes received a final credit rating of "A". Assets not eligible under MAV I and MAV II were separated and note holders holding ABCP series backed in part by ineligible assets received tracking notes for the ineligible assets, which reflect the return on the individual underlying assets.

A newly-created vehicle, siloing each series backed exclusively by traditional assets or 100% ineligible assets, was created under the name Master Asset Vehicle III (MAV III). Two main note classes were created under MAV III: traditional asset tracking notes and ineligible asset tracking notes. All notes are linked to net return and the maturity dates of their respective underlying assets.

On January 21, 2009, the Corporation received MAV II notes, whose total face value was \$9 309 billion, following ABCP restructuring.

Since there is no active market for the ABCP shares included in the Plan, management estimated the amount of ABCPs it could ultimately recover on their face value. It considered a permanent decline in value of \$1 405 M in the fiscal year ended March 31, 2008, and, following the assessment at March 31, 2009, deemed that no additional devaluation was necessary. Management deems this estimate to be reasonable and considers it the most appropriate one at March 31, 2009 based on the information available at that date. The decline in value is estimated using a measurement technique reflecting the quality of the underlying assets, and certain assumptions and probabilities. The notes entail a subordination sequence: Class C notes are subordinate to Class B notes, Class B notes are to Class A-2 notes and Class A-2 notes to Class A-1 notes. This cascade structure is designed to ensure that subordinate tranches absorb the initial losses so as to immunize the higher tranches. Due to the cascade structure, Class C and B notes absorb the largest declines in value. In December 2008, DBRS issued "A" rating to Class A-1 and A-2 notes but did not provide a rating for Class B and C notes.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

7. INVESTMENTS (cont'd)

Third-party asset-backed commercial paper (ABCP) (cont'd)

At March 31, 2009, the Fund held the following ABCP securities included under the restructuring plan:

	<u>Face value</u>	<u>Book value</u>
MAV I		
Class A-1	5 543	5 543
Class A-2	1 365	1 363
Class B	248	
Class C	221	
Ineligible assets	445	
MAV III		
Traditional assets	993	895
Ineligible assets	494	194
	<u>9 309</u>	<u>7 995</u>

At March 31, 2008, the Fund held the following third-party ABCP securities:

	<u>Face value</u>	<u>Book value</u>
Synthetic and hybrid assets	7 450	6 534
Traditional assets	1 307	1 204
High-risk assets	643	257
	<u>9 400</u>	<u>7 995</u>

Class A-1, A-2 and B notes bear interest at bank acceptance rates minus 0.50%. Interest on Class B notes is cumulative and payable only once the capital and interest on Class A-1 and A-2 notes has been paid in full. Class C notes bear interest at bank acceptance rates plus 20%. This interest is cumulative and payable only once the capital and interest on Class A-1, A-2 and B notes has been paid in full.

Traditional asset and ineligible asset notes bear interest at a rate that is adjusted based on the underlying assets' return.

Interest arrearages

On January 21 and May 14, 2009, the Fund received accrued interest minus restructuring costs for the period running from the purchase date to January 21, 2009. This interest is reported in this fiscal year.

Accrued interest on new notes at March 31, 2009 was not reported.

Participation deposits

Participation deposits in a special fund at the CDP are expressed in units. These units are repayable with advance notice, in accordance with the Caisse's settlement means, at the market value of the special fund's net equity at the beginning of each month. At the end of each month, the CDP assigns the special fund the net investment income.

At March 31, 2009, the market value of the 131 736 participation deposit units (2008: 122 432 units) was \$139 953 M (2008: \$161 055 M). Fund management deems that these deposits did not undergo a permanent decline in value at March 31, 2009.

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousand of dollars)

7. INVESTMENTS (cont'd)

Participation deposits (cont'd)

Participation deposit investments contain third-party ABCPs. Under the restructuring plan, the CDP made ABCP-related commitments whose share attributed to the Fund totals 6 486 M (2008: 4 947 M).

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Fund is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Fund did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

MANAGEMENT'S REPORT

The financial statements of the Fonds d'assurance-prêts agricoles et forestiers (Fund) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Fund recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. At least every four years, the Fund must perform an actuarial analysis of its operations and collate all information useful for setting insurance fee rates.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

For the Fonds d'assurance-prêts agricoles et forestiers,

Jacques Brind'Amour
 President and Chief Executive Officer

Jean-François Brouard
 Vice-President, Corporate Affairs

Lévis, July 6, 2009

LA FINANCIÈRE AGRICOLE DU QUÉBEC
FONDS D'ASSURANCE-PRÊTS AGRICOLES ET FORESTIERS

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Fonds d'assurance-prêts agricoles et forestiers as at March 31, 2009 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Fund management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management, and the overall financial statement presentation.

In my opinion, these financial statements present, in all material respects, the financial position of the Fund as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the changes in accounting policies resulting from the adoption of public-sector standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 6, 2009

LOTO-QUÉBEC
(R.S.Q., c. S-13.1)

CONSOLIDATED STATEMENT OF EARNINGS
year ended March 31, 2009
(in thousands of dollars)

	2009	2008
REVENUES	3 870 272	3 850 177
COST OF SALES (Note 5)	1 485 318	1 502 202
GROSS MARGIN	2 384 954	2 347 975
OPERATING EXPENSES		
Operating costs	691 594	670 565
Depreciation and amortization of property, plant and equipment	87 288	84 525
Amortization of intangible assets	11 915	9 797
Interest – net (Note 6)	8 687	11 618
	799 484	776 505
EARNINGS BEFORE THE UNDERNOTED	1 585 470	1 571 470
Special payments (Note 7)	34 175	33 551
Goods and Services Tax	33 959	41 025
Québec Sales Tax	54 417	56 230
Share in a company subject to significant influence, Casinos Développement Europe (Note 12)	6 311	(479)
Exchange loss on investments	849	4 980
	129 711	135 307
NET EARNINGS	1 455 759	1 436 163

SEGMENTED INFORMATION (Note 25)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
year ended March 31, 2009
(in thousands of dollars)

	2009	2008
BALANCE, BEGINNING OF YEAR	134 301	135 082
Net earnings	1 455 759	1 436 163
	1 590 060	1 571 245
Dividends	(1 375 400)	(1 361 000)
Fonds d'aide à l'action communautaire autonome (Note 8)		
Aide à l'action communautaire autonome	(15 267)	(13 379)
Aide à l'action humanitaire internationale	(3 053)	(2 676)
Contributions to the Government of Québec (Note 9)	(62 033)	(59 889)
	(1 455 753)	(1 436 944)
BALANCE, END OF YEAR	134 307	134 301

The accompanying notes are an integral part of the consolidated financial statements.

LOTO-QUÉBEC**CONSOLIDATED BALANCE SHEET**

as at March 31, 2009

(in thousands of dollars)

	2009	2008
ASSETS		
Current assets		
Cash on hand – casinos	49 911	54 048
Cash	20 604	13 684
Accounts receivable (Note 10)	72 911	81 069
Inventories (Note 11)	5 670	5 689
Prepaid expenses	25 682	30 040
	<u>174 778</u>	<u>184 530</u>
Investments (Note 12)	161 476	153 672
Property, plant and equipment (Note 13)	741 825	686 958
Intangible assets (Note 14)	<u>82 464</u>	<u>79 339</u>
	<u>1 160 543</u>	<u>1 104 499</u>
LIABILITIES		
Current liabilities		
Bank loans (Note 15)	263 321	447 800
Prizes to winners	54 699	62 296
Accounts payable and accrued charges (Note 16)	481 016	427 702
Provisions related to prizes (Note 17)	6 039	12 383
Deferred revenues	20 991	19 847
	<u>826 066</u>	<u>970 028</u>
Long-term debt (Note 18)	<u>200 000</u>	
SHAREHOLDER'S EQUITY		
Share capital authorized, issued and paid: 1 700 shares of a par value of \$100 each	170	170
Retained earnings	<u>134 307</u>	<u>134 301</u>
	<u>134 477</u>	<u>134 471</u>
	<u>1 160 543</u>	<u>1 104 499</u>

COMMITMENTS AND CONTINGENCIES (Note 19)

The accompanying notes are an integral part of the consolidated financial statements.

Approved by the Board of Directors
Hélène F. Fortin, Chairwoman of the Board
Paule Bouchard, Chairwoman of the Auditing Committee

LOTO-QUÉBEC**CONSOLIDATED STATEMENT OF CASH FLOWS**

year ended March 31, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net earnings	1 455 759	1 436 163
Items not affecting cash:		
Depreciation and amortization of capital assets	99 203	94 322
Loss on disposal of capital assets	3 528	3 227
Write-off of deferred expenses		654
Net contribution to Manoir Richelieu, Limited Partnership	6 552	7 449
Share in a company subject to significant influence, Casinos Développement Europe	6 311	(479)
Interest revenue on long-term investment, JOAGROUPE Holding	(7 819)	(7 634)
Unrealized exchange gain on investments	(4 456)	(6 038)
Changes in non-cash operating working capital items (Note 21)	<u>(20 685)</u>	<u>31 422</u>
Cash flows from operating activities	<u>1 538 393</u>	<u>1 559 086</u>
FINANCING ACTIVITIES		
Dividends paid	(1 311 000)	(1 196 000)
Bank loans	(184 479)	(170 015)
Long-term liabilities	200 000	
Contributions to the Government of Québec	(62 033)	(59 889)
Fonds d'aide à l'action communautaire autonome (Note 8)		
Aide à l'action communautaire autonome	(15 267)	(13 379)
Aide à l'action humanitaire internationale	<u>(3 053)</u>	<u>(2 676)</u>
Cash flows used in financing activities	<u>(1 375 832)</u>	<u>(1 441 959)</u>
INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment (Note 21)	(132 610)	(93 291)
Acquisitions of intangible assets (Note 21)	(17 720)	(17 843)
Proceeds from disposal of capital assets	99	155
Acquisition of investments	(2 513)	
Investment in Manoir Richelieu, Limited Partnership	(7 098)	(17 450)
Distribution of Manoir Richelieu, Limited Partnership	<u>64</u>	<u>6 568</u>
Cash flows used in investing activities	<u>(159 778)</u>	<u>(121 861)</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	<u>2 783</u>	<u>(4 734)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>67 732</u>	<u>72 466</u>
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 21)	<u><u>70 515</u></u>	<u><u>67 732</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2009

(in thousands of dollars)

1. INCORPORATION AND ACTIVITIES

The Société des loteries du Québec (the Corporation), designated under the name Loto-Québec, is a joint-stock company whose shares are part of the public domain and are attributed to the Québec Minister of Finance. Under *An Act respecting the Société des loteries du Québec* (R.S.Q., chapter S-13.1), the functions of the Corporation are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. The Corporation may also offer, for consideration, consulting and implementation services in matters within its competence. Under the *Income Tax Act*, (R.S.Q., (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (R.S.Q., Ch. I-3), the Corporation is exempt from income taxes.

2. ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates. The main items that are subject to an estimate are the loans to JOAGROUPE Holding and the useful life of property, plant and equipment and intangible assets.

Consolidation

The consolidated financial statements include the accounts of the Corporation and those of its wholly owned subsidiaries as follows:

- Lotim inc.	- World Gaming Consultants, inc.
- La Société des casinos du Québec inc.	- 9059-3849 Québec inc.
- Casiloc inc.	- Casino Mundial inc.
- La Société des loteries vidéo du Québec inc.	- Casino Capital 2006 inc.
- Ingenio, filiale de Loto-Québec inc.	- Technologies Nter, société en commandite
- La Société des bingos du Québec inc.	- Technologies Nter inc.

The investments in Manoir Richelieu, Limited Partnership, 9064-1812 Québec Inc. and Casinos Développement Europe, General Partner (JOAGROUPE Holding prior to February 16, 2009) are recorded using the equity method.

Revenues*Lotteries*

Revenues from the sale of lottery tickets and bingo cards are recorded on the date of the draw, with the exception of instant lottery ticket sales, which are recorded at the time of sale.

Lottery tickets sold as at March 31 for draws subsequent to that date, with the exception of instant lotteries, are recorded as deferred revenues. Retailers' commissions as a result of these sales are carried to prepaid expenses.

Casinos and video lotteries

Revenues from the operations of these business segments correspond to the difference between the lottery pools and the prizes awarded.

Restaurants and lodging

Revenues are recognized when services are rendered to customers, when the selling price is fixed or determinable and collection is reasonably assured.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Revenues (cont'd)***Ingenio*

Revenues consist primarily of royalties. These royalties are recognized as they are earned in accordance with the contractual agreements specific to each of the agreements signed with the various business partners.

Other revenues are recognized when the significant risks and rewards of ownership have been transferred to the buyer or when the services have been rendered to customers. The selling price must be fixed or determinable and collection reasonably assured.

International

These revenues stem from the provision of services related to the operations of JOAGROUPE Holding, services that draw on the Corporation's experience and know-how in casino-related areas as well as in the hotel, restaurant, and entertainment business.

The provision of services covers the salary of one director assigned to the external growth of JOAGROUPE Holding, including travel, lodging and living expenses.

A second provision of services represents the fees equal to the number of hours devoted by the Corporation's other employees multiplied by the hourly rate agreed to by the parties as well as travel and lodging expenses.

Cost of sales*Lotteries and bingo*

Prizes awarded from ticket sales related to bingo products are determined using a theoretical rate applied to sales.

In addition to lottery prizes payable in cash or merchandise, the Corporation also awards free tickets. The value of these prizes is equal to the selling price and is included in revenue sales and prizes awarded as expenses.

Casinos

Promotional discounts correspond to the cash amounts paid to casino players.

Commodity taxes

Taxes paid on products and services acquired and attributable to gaming activities are not recoverable by the Corporation. These taxes are recorded as part of the cost of the item to which they relate.

Furthermore, rather than collecting the Québec Sales Tax (QST) and Goods and Services Tax (GST) on revenues generated by gaming activities, the Corporation pays the taxes normally payable by the consumer and absorbs the cost. These taxes are presented separately in the consolidated statement of earnings.

Net taxes attributable to gaming activities therefore represent approximately 30% of the bulk of taxable gaming expenses, while those related to non-gaming activities are calculated in the same way as those for other entities subject to commodity taxes.

Pension plans

Defined contribution plan accounting is applied to a multiemployer governmental defined benefit plan due to the fact that Loto-Québec has insufficient information to apply defined benefit plan accounting.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Financial instruments***Categories of financial instruments*

Assets and liabilities held for trading include cash and cash equivalents as well as the foreign exchange contract. Also, the Company has designated the following financial assets and liabilities as held for trading: accounts receivable, bank loans, prizes to winners and accounts payable and accrued charges.

The Corporation has classified loans to JOAGROUPE Holding and Manoir Richelieu, Limited Partnership in the loans and receivables category.

Long-term liabilities are classified under other financial liabilities.

Fair value

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair value of short-term financial instruments is equal to their carrying value due to their short-term maturity.

The fair value of the loans to JOAGROUPE Holding and Manoir Richelieu, Limited Partnership of the carrying value is \$129.7M (\$114.9M in 2008) and \$2.5M (\$2.5M in 2008), respectively, cannot be determined since the conditions related to these loans result from transactions carried out between related companies, and, consequently, on terms and conditions that may differ from those that would be negotiated with non-related companies.

Initial measurement

The financial instruments are recognized at fair value at the transaction date.

Subsequent measurement

Financial assets and financial liabilities held for trading are valued at their value and, if applicable, the gains and losses that would result from their revaluation at fair value would be recognized in net earnings.

Loans and receivables, as well as long-term liabilities are valued at cost.

Comprehensive income

During the year, the Corporation did not carry out any transactions that had an impact on comprehensive income and no opening or closing balance of accumulated comprehensive income was presented.

Inventories*Lotteries*

Inventories are comprised of modules for game terminals and are valued at the lower of cost or market (cost being the net realizable value). Cost is determined using the average cost method.

Restaurants

Inventories are valued at the lower of cost or market (cost or net realizable value). The cost of food and beverages is established based on the average cost.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Property, plant and equipment**

Property, plant and equipment are presented at cost and with the exception of works of art, are depreciated or amortized over their estimated useful lives using the straight-line method at the following annual rates:

Buildings	2% to 14.29%
Improvements to parking lots	2.5% to 14.29%
Improvements to rented parking lots	2.86% and 6.67%
Interior design	2.5% to 20%
Landscaping	2.5% to 14.29%
Leasehold improvements	4% to 20%
Office furniture	10% and 20%
Automotive equipment	10% and 30%
Equipment	10% to 33.3%

Unused equipment is not depreciated.

The Corporation assesses the carrying value of its property, plant and equipment on an ongoing basis. In order to determine if there is an impairment, management assesses the estimated undiscounted cash flows that will be generated by this property, plant and equipment. Any permanent impairment in value is charged to earnings in the period during which the impairment occurred.

Intangible assets

Intangible assets are comprised of software and computer development. They are presented at cost and amortized over their estimated useful lives using the straight-line method at rates varying from 10% to 33.3%. They are tested for impairment if changes in circumstances indicate that their carrying value would not be recoverable. Any excess of the carrying value over the fair value is charged to earnings for the period during which the impairment was identified.

Computer projects under development will be amortized upon completion of the development phase and once the projects have been implemented.

Foreign currency translation

Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates, and revenue and expense items are translated at the exchange rate prevailing at the date of the transaction. All exchange gains and losses are included in earnings for the year.

Cash and cash equivalents

The Corporation's policy consists of presenting the following as cash and cash equivalents: cash on hand at casinos, bank balances and short-term investments that are readily convertible into known amounts of cash and present an insignificant risk of change in value.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

3. a) NEW ACCOUNTING STANDARDS

On April 1, 2008, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the following new Sections: Section 1535 “*Capital Disclosures*,” Section 3862 “*Financial Instruments – Disclosures*,” Section 3863 – “*Financial Instruments – Presentation*,” Section 3031 – “*Inventories*.”

The purpose of Section 1535 is to provide qualitative and quantitative information on objectives, policies and processes for managing an entity’s capital. Section 3862 establishes new standards on disclosures for financial instruments, while Section 3863 carries forward the presentation related standards of Section 3861, “*Financial Instruments – Disclosure and Presentation*.” Section 3031 prescribes the accounting treatment for inventories, primarily the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

The adoption of these new standards did not have a significant impact on the amounts recorded in the financial statements.

b) FUTURE CHANGES IN ACCOUNTING POLICIES

During the forthcoming year, the Corporation will adopt the CICA’s recommendations with respect to the new Section 3064 “*Goodwill and Intangible Assets*” that replaces Section 3062 “*Goodwill and Other Intangible Assets*” and Section 3450 “*Research and Development Costs*”. This new Section establishes new recognition, measurement and disclosure standards applicable to goodwill and intangible assets including intangible assets developed internally. This Section will apply to financial statements relating to fiscal years beginning on or after October 1, 2008. Consequently, the Corporation should adopt these standards for the year ending March 31, 2010.

In management’s opinion, the adoption of these new accounting standards will not have a significant impact on the Corporation’s financial statements.

International financial reporting standards

In 2006, Canada’s Accounting Standards Board (AcSB) published a new strategic plan that will have a significant impact on financial presentation requirements for Canadian companies. The AcSB’s strategic plan describes the convergence of Canadian GAAP and international standards (IFRS) over a transition period of approximately five years. On February 13, 2008, the AcSB confirmed that the transition date from current Canadian GAAP to IFRS for publicly accountable enterprises would be 2011. Consequently, the April 1, 2011 transition date means that comparative figures issued by the Corporation for the year ending March 31, 2011 will need to be restated when the Corporation’s first financial statements are published in accordance with IFRS for the year ending March 31, 2012. The Corporation completed its plan for conversion to IFRS and is currently evaluating the future impact of these new standards on its consolidated financial statements.

4. CAPITAL DISCLOSURES

The Corporation defines its capital as shareholder’s equity as follows:

	2009	2008
Shareholder’s equity		
Capital stock	170	170
Retained earnings	134 307	134 301
	<u>134 477</u>	<u>134 471</u>

The Corporation’s shares are part of the public domain and are attributed to the Minister of Finance.

Under the *Act respecting the Corporation*, dividends paid by the Corporation are set by the Québec Minister of Finance, who determines the payment terms. Dividends declared are deducted from retained earnings in the year in which they are declared. In any given year, they cannot exceed the consolidated net earnings from which amounts payable to the Fonds d’aide à l’action communautaire autonome and contributions to the Government of Québec are deducted.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

4. CAPITAL DISCLOSURES (cont'd)

The Corporation is subject to certain capital requirements, which it met throughout the year.

The Corporation administers its capital through careful management of its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure it meets the objectives specified in its act of incorporation.

5. COST OF SALES

	2009	2008
Lotteries		
Prizes awarded	1 015 208	1 031 365
Commissions to retailers	128 705	130 028
Printing of tickets	37 282	36 097
	<u>1 181 195</u>	<u>1 197 490</u>
Casinos, restaurants, lodging		
Promotional discounts	25 021	23 153
Restaurants	27 636	27 556
	<u>52 657</u>	<u>50 709</u>
Video lotteries		
Commissions to retailers	229 919	229 317
Printing of coupons	1 250	1 430
	<u>231 169</u>	<u>230 747</u>
Bingo		
Prizes awarded	16 804	19 187
Commissions to operators	2 325	2 499
Printing of cards	1 168	1 570
	<u>20 297</u>	<u>23 256</u>
	<u>1 485 318</u>	<u>1 502 202</u>

6. INTEREST – NET

	2009	2008
Interest expenses on:		
Bank loans	10 892	20 115
Long-term debt	6 140	
Interest income on:		
Term deposits	(526)	(863)
Long-term investment, JOAGROUPE Holding	(7 819)	(7 634)
	<u>8 687</u>	<u>11 618</u>

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

7. SPECIAL PAYMENTS

	2009	2008
Compensation to the Government of Canada	15 290	15 003
Net contribution to Manoir Richelieu, Limited Partnership	6 552	7 449
Guaranteed payments – gaming halls	3 880	1 350
Special commissions to NPOs	1 111	1 101
Compensation to participating NPOs	6 778	7 971
Compensation to non-participating NPOs	564	677
	<u>34 175</u>	<u>33 551</u>

Compensation to the Government of Canada

Following an agreement reached between provincial governments and the Government of Canada regarding the federal government's withdrawal from the administration of lotteries, the provinces pay the federal government an annual amount of \$24M (equivalent value in 1979), i.e., \$65.0M for the year ended March 31, 2009 (\$63.7M in 2008).

The Government of Québec's share is payable by the Corporation in accordance with the agreement reached between the provinces and the regional lottery corporations.

Net contribution to Manoir Richelieu, Limited Partnership

Pursuant to a guarantee agreement, and according to the distribution terms and conditions specified in the partnership agreement, the net contribution amount represents the minimum portion of cash generated by the operations of the Casino de Charlevoix payable to the partners, while taking into account the Corporation's share of the earnings generated by Manoir Richelieu.

Guaranteed payments – gaming halls

Under the agreement to pay guaranteed payments, these guaranteed payments equal 22% of the net revenues from 535 gaming positions located in two gaming halls related to the hippodromes of Trois-Rivières and Québec City.

Guaranteed payments are made by a subsidiary of the Corporation that acts as an agent of the Government of Québec.

Special commissions to non-profit organizations (NPOs)

Further to the shareholder's decision, a commission equal to the discount provided to retailers is paid to NPOs that sell lottery tickets through the *Lotomatique* subscription system.

Compensation to non-profit organizations (NPOs)*Participating*

La Société des bingos du Québec inc. awards the following to charitable or religious organizations that hold bingo licences: an amount equal to 36.4% of bingo ticket sales less the value of prizes awarded to game winners or 50% of net earnings generated, without taking into account compensation to non-participating NPOs, whichever is higher.

Non-Participating

La Société des bingos du Québec inc. awards an amount equal to 5.45% of pari mutual ticket sales generated by *Le Grand Tour* less the value of prizes paid to game winners to charitable or religious organizations that hold bingo licences but do not participate in the Corporation's bingo games.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

8. FONDS D'AIDE À L'ACTION COMMUNAUTAIRE AUTONOME

The Corporation makes annual contributions to the Fonds that are equal to 6% of the net earnings of the previous year through the operations of its State-run casinos and management of its businesses.

Under its act of incorporation, these amounts are attributed at 5% to the Fonds d'aide à l'action communautaire autonome and 1% to the Fonds d'aide à l'action humanitaire internationale.

9. CONTRIBUTIONS TO THE GOVERNMENT OF QUÉBEC

	2009	2008
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	6 132	4 000
Ministère de la Santé et des Services sociaux	52 000	52 000
Ministère de la Sécurité publique	3 901	3 889
	<u>62 033</u>	<u>59 889</u>

10. ACCOUNTS RECEIVABLE

	2009	2008
Wholesalers	28 066	35 447
Retailers	21 315	21 553
Miscellaneous	23 530	24 069
	<u>72 911</u>	<u>81 069</u>

11. INVENTORIES

	2009	2008
Lotteries		
Modules – game terminals	25	95
Restaurants		
Food and beverages	5 645	5 594
	<u>5 670</u>	<u>5 689</u>

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

12. INVESTMENTS

	2009	2008
Casinos Développement Europe		
Shares –35% ⁽¹⁾ interest		6 299
JOAGROUPE Holding and its wholly owned subsidiaries		
Loans in Euro, fixed rate of 8%, principal and interest, cashable on May 31, 2016 ⁽²⁾	129 696	114 919
	129 696	121 218
Manoir Richelieu, Limited Partnership and 9064-1812 Québec inc., General Partner, interest equal to 50% of the operations of Manoir Richelieu and Casino de Charlevoix	29 272	29 946
Manoir Richelieu, Limited Partnership		
Loan, without fixed terms of repayment, bearing interest at a fixed rate of 5%, payable annually	2 508	2 508
	161 476	153 672

(1) The value of the shares was written down to account for the 35% of the loss of JOAGROUPE Holding as at December 31, 2008 up to a maximum of the value of the shares held by the Corporation. On February 16, 2009, the shares of JOAGROUPE Holding were transferred to Casinos Développement Europe.

(2) On February 16, 2009, the Corporation agreed to suspend interest charges for an initial period of one year. This agreement will be reviewed annually. The carrying amount of the loans has not been written down, since management believes that the value of the loans is recoverable.

13. PROPERTY, PLANT AND EQUIPMENT

	2009		2008
	Cost	Accumulated Depreciation and Amortization	Net
Land	42 339		42 339
Buildings	374 738	124 979	249 759
Improvements to parking lots	130 449	79 865	50 584
Improvements to rented parking lots	5 271	3 600	1 671
Interior design	205 821	110 699	95 122
Landscaping	35 134	24 538	10 596
Leasehold improvements	54 814	34 284	20 530
Office furniture	33 916	24 861	9 055
Automotive equipment	887	706	181
Equipment	642 815	449 400	193 415
Works of art	6 094		6 094
Unused property, plant and equipment	62 479		62 479
	1 594 757	852 932	741 825
			686 958

Unused property, plant and equipment consists of unused equipment in the amount of \$9.4M (\$8.4M in 2008), buildings undergoing renovations in the amount of \$8.9M (\$8.0M in 2008) as well as costs to implement the Casino de Mont-Tremblant currently underway in the amount of \$44.2 M (\$12.3M in 2008).

Property, plant and equipment retired at a cost of \$18.0M (\$15.4M in 2008), amortized in full as at March 31, 2009, are included in equipment.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

14. INTANGIBLE ASSETS

	2009		2008
	Cost	Accumulated Amortization	Net
Software and computer development	133 744	62 253	71 491
Computer projects under development	10 973		10 973
	<u>144 717</u>	<u>62 253</u>	<u>82 464</u>
			<u>79 339</u>

15. BANK LOANS

The Corporation is authorized by the Government of Québec for short-term borrowing up to a maximum amount of \$575M from financial institutions or the Québec Minister of Finance, as manager of the financing fund, and in the long term up to a maximum of \$1B from the same fund.

Despite the above, the total amount of the Corporation's short- and long-term borrowings cannot at any time exceed a total amount of \$1.3B.

Bank loans with a term of less than one year total \$263.3M (\$447.8M in 2008) of which \$70M is with the Fonds de financement du gouvernement du Québec and bear interest at the market rate, which is 0.56% to 3.28% (3.46% to 4.74% in 2008).

16. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2009	2008
Trade accounts payable and accrued charges	169 114	181 317
Dividends	295 400	231 000
Manoir Richelieu, Limited Partnership	6 524	6 517
Goods and Services Tax	4 039	3 327
Québec Sales Tax	5 939	5 541
	<u>481 016</u>	<u>427 702</u>

17. PROVISIONS RELATED TO PRIZES

	2009	2008
Provision for unclaimed prizes	6 007	12 026
Provision for differences in prize structures	32	357
	<u>6 039</u>	<u>12 383</u>

The provision for unclaimed prizes is comprised of unclaimed prizes of all the Corporation's products, excluding Canada-wide games. This amount is used as payments for bonuses and prizes to retailers.

The provision for differences in prize structures related to products in the bingo segment is comprised of differences between the theoretical amounts of the prizes to be awarded under the prize structure and the actual amounts payable. The amounts of this provision are mainly used to offset occasional shortfalls arising from prize structures that exceed the forecast amounts. Furthermore, this provision may, following the approval of the Board of Directors, be used to award bonus prizes or for discharging any possible claims associated with the games, or it may be included in earnings.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

18. LONG-TERM DEBT

	2009	2008
Loans from the Fonds de financement du gouvernement du Québec, interest payable semi-annually, repayable at maturity on:		
December 1, 2010, at a fixed rate of 3.382%	75 000	
May 5, 2014, at a fixed rate of 3.113%	50 000	
December 1, 2015, at a fixed rate of 4.117%	75 000	
	<u>200 000</u>	

19. COMMITMENTS AND CONTINGENCIES

CONTINGENCIES

In the normal course of business, the Corporation is subject to various claims and lawsuits. The Corporation's management is disputing these lawsuits. No provision has been made in the Corporation's records with respect to these contingencies, because, in management's view, no settlement that could arise from these lawsuits would have a significant impact on the Corporation's consolidated financial statements.

COMMITMENTS

Leases

The Corporation is committed under long-term leases expiring on various dates through May 2035 for the rental of administrative offices and land. In certain cases, these leases carry an implied two-to five-year renewal option up to a maximum term of 60 years.

Future minimum payments, in thousands of dollars, are as follows:

2010	22 479
2011	20 620
2012	14 582
2013	11 726
2014	9 407
2015 and thereafter	<u>23 347</u>
	<u>102 161</u>

Network of direct lotteries

In June 2006, the Government of Québec authorized the Corporation, through one of its subsidiaries, to replace its lottery game terminals for a maximum amount of \$95.5M, of which \$58.1M was recorded as at March 31, 2009 (\$4.2M in 2008). On this date, contractual commitments related to this project amounted to \$1.8M (\$53.1M in 2008).

Casinos*Mont-Tremblant*

The Corporation established a total budget of \$66.5M for implementing the Casino de Mont-Tremblant, which is scheduled to open in June 2009. As at March 31, 2009, \$38.7M was recorded (\$13.2M in 2008) and commitments at this date totalled \$7.7M (\$3.9M in 2008).

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

19. COMMITMENTS AND CONTINGENCIES (cont'd)**COMMITMENTS (cont'd)****Casinos (cont'd)***Mont-Tremblant (cont'd)*

In November 2006, the Government of Québec authorized the Corporation, through one of its other subsidiaries, to enter into a services agreement with the Mont-Tremblant Ski Resort, Limited Partnership, for an indefinite period, providing for the payment of its portion of miscellaneous services such as transportation, marketing and shared costs. At the time of opening, minimum annual payments under the services agreement will total \$1.7M. Some of these payments are subject to renegotiation based on the opening date.

Agreement to pay guaranteed payments – gaming halls

The Government of Québec has authorized the Corporation, through one of its subsidiaries, to enter into an agreement for guaranteed payments with four limited partnerships.

This agreement provides for a payment for a 15-year period of 22% of the net revenues from 1,900 gaming positions located in three gaming halls related to the hippodromes of Trois-Rivières, Québec City and northern “crown” of Montréal as well as the Aylmer Hippodrome. A renewal option for an additional ten years provides for the payment of a percentage of the net revenues from these 1,900 gaming positions that will be equal to the amount payable during the same period to the operators of the video lottery terminals located in bars, brasseries and taverns.

The payment of these amounts is conditional on the limited partnerships respecting their commitments under this agreement for guaranteed payments and those under the asset-sales and commitment agreement of August 17, 2006 related to the race horse industry as well as those under the regulations applicable to video lotteries.

The Corporation is not in a position at this time to evaluate the total amount of this commitment.

Fondation Mise sur toi

Starting in fiscal 2009-10, the Corporation has committed to make an annual contribution to the Foundation equivalent to 2.25/10 of 1% of actual net earnings of the lottery, casino, video lottery and bingo business segments. For the coming year, the estimated payment will be \$6.3M.

The Foundation’s mission is to build awareness and inform Quebecers about gaming and gambling so they can make responsible and informed decisions, and thereby maintain a healthy approach to gambling. Its main objectives are to promote responsible gaming behaviour, prevent the harmful effects of excessive gambling and protect at-risk individuals.

Contributions to the Government of Québec*Ministère de l’Agriculture, des Pêcheries et de l’Alimentation (MAPAQ)*

Following the repeal of fairground casinos, the Government authorized Loto-Québec to conclude an agreement with the MAPAQ, as of fiscal year 2008-09, related to an annual payment of \$6.1M into a specified purpose account for a period of five years until March 31, 2013.

Ministère de la Santé et des Services sociaux

With the authorization of the Government of Québec, the Corporation is committed to make an annual contribution of \$22.0M to the Ministère de la Santé et des Services sociaux (MSSS) into a specified purpose account to finance prevention measures, treatment services and research programs and information campaigns to help compulsive gamblers.

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

19. COMMITMENTS AND CONTINGENCIES (cont'd)

COMMITMENTS (cont'd)

Contributions to the Government of Québec (cont'd)*Ministère de la Santé et des Services sociaux (cont'd)*

Furthermore, the Corporation is also committed to the MSSS to make an annual contribution of \$30.0M into a specified purpose account to finance assistance and support services for the elderly who are no longer autonomous but live on their own or in residential homes.

The Corporation is not in a position to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Government of Québec, the Corporation is committed to the Ministère de la Sécurité publique to make an annual contribution of \$3.0M into a specified purpose account to finance activities and intensive control measures implemented by the Régie des alcools, des courses et des jeux in order to specifically ensure the management of control measures regarding access to video lottery terminals. The Corporation is not in a position to assess the total amount of this commitment.

Furthermore, the Corporation is also committed to the same Québec Government department to make an annual contribution of approximately \$0.9M into a specified purpose account indexed annually according to the consumer price index and to do so for a five-year period ending March 31, 2012 for purposes of financing additional resources that would allow for a reduction of the certification periods of game terminals operated by the Corporation.

20. FINANCIAL INSTRUMENTS**Risk management policy**

The Corporation has control and management policies and procedures in place that ensure proper management of inherent risks to financial instruments.

Credit risk

Management considers that the Corporation is not exposed to any significant credit risk. The carrying amount of financial assets represents the entity's maximum exposure to credit risk. Cash on hand – casinos includes the casinos' cash inventory. Accounts receivable are primarily from operations concluded with a significant number of wholesalers and retailers.

Details of the receivables analysis are as follows:

	2009			2008		
	Gross value	Loss in value	Net value	Gross value	Loss in value	Net value
Net receivables	72 911		72 911	81 069		81 069
0-120 days overdue	16	16		350	350	
121-365 days overdue	419	419		650	650	
More than 365 days overdue	111	111		546	546	
	<u>73 457</u>	<u>546</u>	<u>72 911</u>	<u>82 615</u>	<u>1 546</u>	<u>81 069</u>

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

20. FINANCIAL INSTRUMENTS (cont'd)**Credit risk (cont'd)**

Details on the change in the provision for losses on receivables are as follow:

	2009	2008
Balance, beginning of the year	1 546	625
Loss in recorded value	460	948
Reversal of provision	(1 460)	(27)
Balance, end of the year	<u>546</u>	<u>1 546</u>

Exchange risk

The Corporation has investment loans denominated in Euro in JOAGROUPE Holding, with a carrying value of \$129.7M as at March 31, 2009 (\$114.9M in 2008). On May 31, 2008, the Corporation signed a foreign exchange contract denominated in Euro for an amount of \$124.2M (78.5M€) that expired on March 31, 2009 to protect itself against any future changes in the exchange rate with respect to this investment. Similar protection expiring on March 31, 2010 was renewed for an amount of \$127.4M (77.4M€). The fair value of the foreign exchange contract as at March 31, 2009 is nil, as it was entered into on that date.

Furthermore, the Corporation carries out other transactions in foreign currencies. It does not hold or issue financial instruments as a way to manage the exchange risk to which it is exposed to through these transactions. However, this risk does not have a significant impact on the Corporation's earnings or financial position.

Liquidity risk

Contractual cash flows related to the entity's financial liabilities are as follows:

			Maturity			
	Carrying amount	Total contractual cash flows	Less than 12 months	1 to 2 years	2 to 5 years	5 to 6 years
Financial liabilities						
Bank loans	263 321	265 814	265 814			
Prizes to winners	54 699	54 699	54 699			
Accounts payable and accrued charges	481 016	481 016	481 016			
Long-term liabilities	<u>200 000</u>	<u>234 647</u>	<u>6 579</u>	<u>82 181</u>	<u>13 933</u>	<u>131 954</u>
	<u>999 036</u>	<u>1 036 176</u>	<u>808 108</u>	<u>82 181</u>	<u>13 933</u>	<u>131 954</u>

The entity considers that it has sufficient assets that can readily be converted into cash, as well as credit facilities to ensure it has the necessary funds to meet its current and long-term financial needs, if necessary, and at a reasonable cost.

Interest rate risk

Interest rates on loans and long-term liabilities are fixed.

Interest rates on bank loans are also fixed. Bank loans are taken out to meet temporary liquidity shortfalls for a period of less than 365 days with financial institutions or the Minister of Finance in his capacity as the manager of the Fonds de financement. Careful loan management helps reduce cash flow risk with respect to interest paid.

LOTO-QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

21. CONSOLIDATED CASH FLOWS

	2009	2008
Cash and cash equivalents, end of year		
Cash on hand – casinos	49 911	54 048
Cash	20 604	13 684
	<u>70 515</u>	<u>67 732</u>
Change in non-cash operating working capital items		
Accounts receivable	8 158	564
Inventories	19	1 279
Prepaid expenses	2 842	(3 842)
Prizes to winners	(7 597)	3 989
Accounts payable and accrued charges	(18 907)	28 782
Provisions related to prizes	(6 344)	(2 435)
Deferred revenue	1 144	3 085
	<u>(20 685)</u>	<u>31 422</u>
Acquisitions of property, plant and equipment	(134 126)	(93 654)
Less: prepaid expenses transferred to property, plant and equipment	1 516	363
	<u>(132 610)</u>	<u>(93 291)</u>
Acquisitions of intangible assets	(17 720)	(18 158)
Less: prepaid expenses transferred to intangible assets		315
	<u>(17 720)</u>	<u>(17 843)</u>
Additional information		
Interest paid	<u>16 951</u>	<u>19 201</u>

The “accounts payable and accrued charges” item includes acquisitions of property, plant and equipment and intangible assets amounting to \$33.1M and \$2.0M, respectively (\$21.5M and \$4.6M in 2008).

22. PENSION PLAN

Employees of the parent company, La Société des loteries vidéo du Québec inc., La Société des bingos du Québec inc. and Ingenio, filiale de Loto-Québec inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF) or the Régime de retraite du personnel d'encadrement (RRPE). These are defined benefit plans and include guarantees upon retirement or death. Contributions charged to consolidated earnings for the year for these multiemployer plans totalled \$5.1M (\$4.7M in 2008). The employer's obligations toward these government plans are limited to its contributions as an employer.

Employees of La Société des casinos du Québec inc. participate in a defined contribution plan. Employees of Technologies Nter, société en commandite participate in a group RRSP. These defined contribution plans are voluntary and provide employees with immediate vesting of the employer's contribution, which is equal to the employee's contribution within the limits prescribed under the plans. Contributions charged to consolidated earnings for the year for these plans totalled \$10.0M (\$10.0M in 2008).

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed and recorded at the exchange amount, the Corporation is related to all Government of Québec departments and special funds, as well as agencies and enterprises directly or indirectly controlled by the Government of Québec, or subject to either joint control or significant joint influence on the part of the Government of Québec. With the exception of the aforementioned transactions, the Corporation has not concluded any business transactions with these related parties other than within the normal course of business and usual business terms and conditions. These transactions have not been disclosed separately in the financial statements.

24. COMPARATIVE FIGURES

Certain prior year figures of 2008 have been reclassified to conform to the current year's presentation in 2009.

25. SEGMENTED INFORMATION

2009								
Business Segments	Lotteries	Casinos	Video lotteries	Bingo	Ingenio	International	Elimination of inter-company transactions	Consolidated figures
Revenues								
Games	1 901 534	811 135	1 062 720	35 392	1 083		(484)	3 811 380
Restaurants		87 807					(46 998)	40 809
Lodging		16 501						16 501
Provision of services						1 582		1 582
	<u>1 901 534</u>	<u>915 443</u>	<u>1 062 720</u>	<u>35 392</u>	<u>1 083</u>	<u>1 582</u>	<u>(47 482)</u>	<u>3 870 272</u>
Cost of sales								
Games	1 181 289	25 021	231 169	20 297			(94)	1 457 682
Restaurants		27 636						27 636
	<u>1 181 289</u>	<u>52 657</u>	<u>231 169</u>	<u>20 297</u>			<u>(94)</u>	<u>1 485 318</u>
Gross margin	<u>720 245</u>	<u>862 786</u>	<u>831 551</u>	<u>15 095</u>	<u>1 083</u>	<u>1 582</u>	<u>(47 388)</u>	<u>2 384 954</u>
Operating expenses								
Operating costs ⁽¹⁾⁽²⁾	163 111	486 948	81 830	5 901	329	863	(47 388)	691 594
Dep. & amort. of property, plant and equipment	9 305	47 057	30 720	167	39			87 288
Amortization of intangible assets	7 378	3 229	1 296	12				11 915
Interest – net	<u>5 214</u>	<u>5 095</u>	<u>6 212</u>	<u>(7)</u>	<u>(4)</u>	<u>(7 823)</u>		<u>8 687</u>
	<u>185 008</u>	<u>542 329</u>	<u>120 058</u>	<u>6 073</u>	<u>364</u>	<u>(6 960)</u>	<u>(47 388)</u>	<u>799 484</u>
Earnings before the undernoted and amount carried forward	<u>535 237</u>	<u>320 457</u>	<u>711 493</u>	<u>9 022</u>	<u>719</u>	<u>8 542</u>		<u>1 585 470</u>

LOTO-QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

25. SEGMENTED INFORMATION (cont'd)

2009								
Business Segments	Lotteries	Casinos	Video lotteries	Bingo	Ingenio	International	Elimination of inter-company transactions	Consolidated figures
Earnings before the undernoted and amount brought forward	535 237	320 457	711 493	9 022	719	8 542		1 585 470
Special payments	16 401	6 552	3 880	7 342				34 175
Goods and								
Services Tax	12 626	6 657	14 379	297				33 959
Québec Sales Tax	20 170	10 854	22 925	468				54 417
Share in a company subject to significant influence, Casinos Développement Europe						6 311		6 311
Exchange loss on investments						849		849
	49 197	24 063	41 184	8 107		7 160		129 711
Net earnings	486 040	296 394	670 309	915	719	1 382		1 455 759

(1) Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.

(2) The Board of Directors decided that the contribution to participating NPOs would be increased annually with the payment of a subsidy equal to the net earnings from the bingo segment. The amount of \$0.9M is assumed by the Corporation's corporate segment and distributed according to the net revenues of the main segments.

LOTO-QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

25. SEGMENTED INFORMATION (cont'd)

2008								
Business Segments	Lotteries	Casinos	Video lotteries	Bingo	Ingenio	International	Elimination of inter-company transactions	Consolidated figures
Revenues								
Games	1 910 120	790 446	1 048 486	41 068	626		(190)	3 790 556
Restaurants		87 067					(46 017)	41 050
Lodging		17 104						17 104
Provision of services						1 467		1 467
	1 910 120	894 617	1 048 486	41 068	626	1 467	(46 207)	3 850 177
Cost of sales								
Games	1 197 625	23 153	230 747	23 256			(135)	1 474 646
Restaurants		27 556						27 556
	1 197 625	50 709	230 747	23 256			(135)	1 502 202
Gros margin	712 495	843 908	817 739	17 812	626	1 467	(46 072)	2 347 975
Operating expenses								
Operating costs ⁽¹⁾⁽²⁾	160 275	472 352	71 682	6 006	5 389	933	(46 072)	670 565
Dep. & amort. of property, plant and equipment	10 320	46 515	27 477	169	44			84 525
Amortization of intangible assets.	6 134	2 841	749	72	1			9 797
Interest – net	6 651	4 775	7 856	(14)	(9)	(7 641)		11 618
	183 380	526 483	107 764	6 233	5 425	(6 708)	(46 072)	776 505
Earnings (loss) before the undernoted	529 115	317 425	709 975	11 579	(4 799)	8 175		1 571 470
Special payments	16 104	7 449	1 350	8 648				33 551
Goods and Services Tax	15 800	7 906	16 919	400				41 025
Québec Sales Tax	21 727	10 758	23 199	546				56 230
Share in a company subject to significant influence, Casinos Développement Europe						(479)		(479)
Exchange loss on investments						4 980		4 980
	53 631	26 113	41 468	9 594		4 501		135 307
Net earnings (loss)	475 484	291 312	668 507	1 985	(4 799)	3 674		1 436 163

LOTO-QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

25. SEGMENTED INFORMATION (cont'd)

- (1) Expenses are assumed by the Corporation's corporate management team. Certain operating costs and related commodity taxes, attributable directly to the segments, are allocated based on their use. Other expenses are allocated based on the net revenues of the primary business segments.
- (2) The Board of Directors decided that the contribution to participating NPOs would be increased annually with the payment of a subsidy equal to the net earnings from the bingo segment. The amount of \$2M is assumed by the Corporation's corporate segment and distributed according to the net revenues of the main segments.

MANAGEMENT'S REPORT

The consolidated financial statements of Loto-Québec have been prepared by management, who is responsible for their preparation and presentation, and includes important estimates and assumptions. This responsibility also includes the selection of the proper accounting policies in accordance with Canadian generally accepted accounting principles. Financial information provided elsewhere in the Annual Report on Activities is consistent with that shown in the financial statements.

To meet its obligations, management maintains internal control systems that are designed to provide reasonable assurance that the assets are safeguarded and the transactions are properly recorded and approved, and that they enable management to produce reliable consolidated financial statements. Corporate management of the internal audit performs periodic audits in order to ensure the adequacy and maintenance of the internal controls applied consistently by Loto-Québec.

Loto-Québec recognizes that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors, assisted by its Audit Committee, consisting solely of outside directors, monitors management's responsibilities regarding the financial information and approves the consolidated financial statements. The Audit Committee meets with management and the Auditor General of Québec, reviews the Corporation's consolidated financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the consolidated financial statements of Loto-Québec, in compliance with Canadian generally accepted auditing standards, and his auditor's report states the nature and scope of this audit and his statement of opinion. The Auditor General has free access to the Audit Committee to discuss audit-related issues.

Alain Cousineau
President and Chief Executive Officer

Gille Dufour
Senior Vice-President, Financial Affairs

Montréal, May 21, 2009

LOTO-QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2009 and the consolidated statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec,
Renaud Lachance, CA auditor

Québec, May 21, 2009

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCES
for the year ended March 31, 2009

	General Fund	Commercial Activities Fund
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$9 548 900	
Specific projects	62 710	
Government of Canada subsidies		
– Specific projects (Note 5)	555 477	
Subsidy – other	32 755	
Donations – Funding campaign (Note 6)		
Art work donations	3 901 805	
Other donations (Note 7)	707 756	
Sponsorship	39 576	
Investment income (Note 8)	78 145	
Sales		\$27 344
Space rental		164 329
Travelling exhibitions	155 606	
Royalties – food services		
Admission fees	472 634	
Other revenues	190 005	825
	<u>15 745 369</u>	<u>192 498</u>
EXPENSES		
Salaries and fringe benefits	4 749 120	31 127
Professional, administrative and other services	3 872 248	17 550
Transportation and communications	1 229 823	2 248
Materials and supplies	602 128	161
Rentals	1 005 146	26 444
Maintenance and repairs	252 410	944
Interest charges and cost of borrowing	6 624	
Acquisition of art works (Note 9)		
Donations – art work	3 901 805	
Purchases – art work	315 014	
Amortization – capital assets		
	<u>15 934 318</u>	<u>78 474</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(188 949)	114 024
OPENING FUND BALANCES (Note 4)	251 463	275 000
Interfund contributions (Note 11)	211 574	(114 024)
	<u>274 088</u>	<u>275 000</u>
Opening balances of unrealized cumulated gains on financial assets available for sale	42 225	
Unrealized gains (losses) on financial assets available for sale	12 642	
Reclassification adjustment to unrealized (gains) losses posted to excess (deficiency) of revenues over expenses		
Closing unrealized cumulated gains (losses) on financial assets available for sale	<u>54 867</u>	
CLOSING FUND BALANCES	<u>\$328 955</u>	<u>\$275 000</u>

The notes are an integral part of the financial statements.

Capital Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2009	Total 2008 Reworked – Note 4
\$377 480	\$18 370		\$9 944 750 62 710	\$9 891 062
			555 477	678 690
			32 755	77 245
	97 550		97 550	80 500
			3 901 805	1 234 800
			707 756	549 030
			39 576	47 917
			78 145	154 409
			27 344	19 451
			164 329	234 096
			155 606	34 855
				15 032
			472 634	432 120
			190 830	186 544
377 480	115 920		16 431 267	13 635 751
			4 780 247	4 586 759
			3 889 798	3 786 512
			1 232 071	1 037 709
			602 289	637 394
			1 031 590	1 037 523
			253 354	245 050
249 069	18 370		274 063	286 967
			3 901 805	1 234 800
			315 014	657 502
128 411			128 411	119 127
377 480	18 370		16 408 642	13 629 343
	97 550		22 625	6 408
		\$1 412 846	1 939 309	1 932 901
	(97 550)			
		1 412 846	1 961 934	1 939 309
		99 970	142 195	376 337
		(373 485)	(360 843)	(154 109)
		42 286	42 286	(80 033)
		(231 229)	(176 362)	142 195
		\$1 181 617	\$1 785 572	\$2 081 504

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

BALANCE SHEET
as at March 31, 2009

	General Fund	Commercial Activities Fund
ASSETS		
Current assets		
Cash on hand	\$764 382	
Short-term investments (Note 12)	198 586	
Accounts receivable	343 618	\$5 074
Interfund receivables, interest-free, no encashment terms	399 782	284 176
Gouvernement du Québec subsidies receivable	62 710	
Other subsidies receivable	135 877	
Prepaid expenses	457 576	
	<u>2 362 531</u>	<u>289 250</u>
Gouvernement du Québec subsidies receivable		
Investments (Note 12)	1 086 713	
Capital assets (Note 13)		
	<u>\$3 449 244</u>	<u>\$289 250</u>
LIABILITIES		
Current liabilities		
Bank advances and credit line (Notes 14 and 15)		
Accounts payable and accrued liabilities	\$709 299	
Provision for vacation time	431 955	
Interfund receivables, interest-free, no repayment terms		
Interest payable		
Deferred revenue	115 272	\$14 250
Deferred donations (Note 6)		
Deferred investment income (Note 12)	1 026 745	
Deferred Gouvernement du Québec subsidies		
– Specific projects	35 000	
Deferred Government of Canada subsidies		
– Specific projects		
Other deferred subsidy – Specific project		
Current portion of long-term debt (Note 16)		
	<u>2 318 271</u>	<u>14 250</u>
Future fringe benefits (Note 18)	802 018	
Long-term debt (Note 16)		
Deferred Gouvernement du Québec subsidies (Note 17)		
	<u>3 120 289</u>	<u>14 250</u>
FUND BALANCES		
Invested in capital assets		
External appropriations (Note 10)	250 000	
Unappropriated funds	24 088	275 000
Unrealized cumulated gains (losses) on financial assets available for sale	54 867	
	<u>328 955</u>	<u>275 000</u>
	<u>\$3 449 244</u>	<u>\$289 250</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Marc DeSerres
Nathalie Pratte

Capital Assets Fund	Fundraising Campaign Fund	Endowment Fund for the Acquisition of Works of Art	Total 2009	Total 2008 Reworked – Note 4
		\$15 943	\$780 325	\$559 894
		214 683	413 269	140 861
	\$5 000		353 692	480 080
\$534 111	295 983			
	72 628		669 449	555 943
			135 877	270 080
			457 576	495 918
534 111	373 611	230 626	2 810 188	2 502 776
4 838 349	201 555		5 039 904	5 259 557
		1 915 564	3 002 277	3 463 690
521 671			521 671	316 280
<u>\$5 894 131</u>	<u>\$575 166</u>	<u>\$2 146 190</u>	<u>\$11 374 040</u>	<u>\$11 542 303</u>
\$375 896			\$375 896	\$310 000
			709 299	778 788
			431 955	437 806
15 368		\$964 573		
84 423	\$5 443		89 866	83 680
			129 522	63 299
	300 983		300 983	393 533
			1 026 745	986 082
			35 000	35 000
				8 000
				27 755
446 281	67 185		513 466	471 371
921 968	373 611	964 573	3 612 732	3 595 314
			802 018	762 537
4 450 492	201 555		4 652 047	4 786 668
521 671			521 671	316 280
<u>5 894 131</u>	<u>575 166</u>	<u>964 573</u>	<u>9 588 468</u>	<u>9 460 799</u>
		1 412 846	1 662 846	1 662 846
			299 088	276 463
		(231 229)	(176 362)	142 195
		1 181 617	1 785 572	2 081 504
<u>\$5 894 131</u>	<u>\$575 166</u>	<u>\$2 146 190</u>	<u>\$11 374 040</u>	<u>\$11 542 303</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	General Fund	Commercial Activities Fund
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	\$(188 949)	\$114 024
Items not affecting liquid assets		
Amortization of capital assets		
Net gains realized on investments available for sale		
	(188 949)	114 024
Changes in assets and liabilities related to operations		
Accounts receivable	114 284	17 104
Accrued interest		
Interfund receivables	47 084	(23 078)
Gouvernement du Québec subsidies receivable	(62 710)	
Other subsidies receivable	134 203	
Prepaid expenses	38 342	
Long-term receivable		
Accounts payable and accrued liabilities	(69 489)	
Provision for vacation time	(5 851)	
Interest payable		
Deferred revenue	60 249	5 974
Deferred donations		
Deferred investment income	40 663	
Deferred Gouvernement du Québec subsidies – Specific projects		
Deferred Government of Canada subsidies – Specific projects	(8 000)	
Other deferred subsidy–Specific project	(27 755)	
Future fringe benefits	39 481	
Deferred Gouvernement du Québec subsidies		
	300 501	
Cash flows related to operating activities	111 552	114 024
FINANCING ACTIVITIES		
Long-term debt repayment		
Long term debt		
Bank advances		
Cash flows related to financing activities		
INVESTMENT ACTIVITIES		
Acquisition of capital assets		
Acquisition of investments	(41 613)	
Gains from the sale of investments		
Cash flows related to investment activities	(41 613)	
CHANGE IN CASH AND CASH EQUIVALENTS	69 939	114 024
Interfund contributions (Note 11)	211 574	(114 024)
OPENING CASH AND CASH EQUIVALENTS	482 869	
CLOSING CASH AND CASH EQUIVALENTS	\$764 382	

Cash and cash equivalents include cash on hand.
The notes are an integral part of the financial statements.

Capital Assets Funds	Fundraising Campaign Fund	Endowment Fund for the Acquisitions of Works of Art	Total 2009	Total 2008 Reworked – Note 4
	\$97 550		\$22 625	\$6 408
\$128 411			128 411	119 127
		\$42 286	42 286	(80 033)
128 411	97 550	42 286	193 322	45 502
	(5 000)		126 388	(258 170)
(148 412)	97 550	26 856		14 197
100 311	68 546		106 147	527 228
			134 203	38 307
			38 342	(75 957)
				15 554
			(69 489)	(553 732)
			(5 851)	37 759
7 546	(1 361)		6 185	(5 825)
			66 223	(23 301)
	(92 550)		(92 550)	(76 500)
			40 663	132 474
				(47 500)
			(8 000)	(262 000)
			(27 755)	27 755
			39 481	(32 110)
205 391			205 391	(119 127)
164 836	67 185	26 856	559 378	(660 948)
293 247	164 735	69 142	752 700	(615 446)
(446 281)	(67 185)		(513 466)	(471 371)
420 940			420 940	
65 896			65 896	
40 555	(67 185)		(26 630)	(471 371)
(333 802)			(333 802)	(116 426)
		(1 166 208)	(1 207 821)	(1 236 359)
		1 035 984	1 035 984	1 119 500
(333 802)		(130 224)	(505 639)	(233 285)
	97 550	(61 082)	220 431	(1 320 102)
	(97 550)			
		77 025	559 894	1 879 996
		\$15 943	\$780 325	\$559 894

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person under the Civil Code, the Musée d'art contemporain de Montréal was established by the *National Museums Act* (R.S.Q., c. M-44) to make known, promote and preserve contemporary Québec art and ensure a place for international contemporary art through acquisitions, exhibitions and other cultural activities.

The Musée d'art contemporain de Montréal is a recognized charity under the Québec *Taxation Act* and Canada *Income Tax Act*. Consequently, it is eligible for the tax exemption provided for such institutions.

2. PURPOSE OF THE FUNDS

The General Fund accounts for the Musée's current operations.

The Commercial Activities Fund shows the Musée's commercial activities: exhibition catalogue sales, restaurant and gift shop operations, by-products and sales and space rental. Under a regulation approved by the Government in September 1994, the Fund balance must not exceed \$275 000 and must be used to repay borrowings or finance Musée activities.

The Capital Assets Fund shows all assets, liabilities, revenues and expenditures related to capital assets. All amounts recorded in the Capital Assets Fund are reserved for acquisition of capital assets for the Musée and payment of related costs. The Musée may not acquire, dispose of, mortgage or rent any building without the Government's approval.

The Fundraising Campaign Fund receives donations for enhancement of the Musée's educational activities, acquisition of works of art and capital assets.

The Endowment Fund for the Acquisition of Works of Art presents resources acquired through endowments. Under a regulation approved by the Government, the capital must be maintained and only investment income generated by this Fund can be used to acquire works of art for the Musée's collection.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are doubtful accounts and capital asset amortization. Real results may differ from these estimates.

Revenue and endowment reporting

Contributions are recorded using the deferral method. Appropriated contributions are posted to revenue the year the related expenditure is incurred. Non-appropriated contributions are posted to revenue when received or receivable if the amount can be evaluated with reasonable assurance and recovery is reasonably certain.

Subsidies receivable for capital assets and their maintenance are posted the year the Musée obtains the financing or carries out the work entitling it to these subsidies.

Endowments received for the acquisition of works of art are recorded as a direct increase in the balance of the Endowment Fund for the Acquisition of Works of Art. This Fund's investment income is recorded as deferred investment income in the General Fund and as revenue when it is used to acquire works of art.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2009

3. ACCOUNTING POLICIES (cont'd)

Revenue and endowment reporting

Other endowments are recorded as a direct increase in the balance of the General Fund Endowment Fund, whereas the investment income related to these contributions is recorded as deferred investment income in the General Fund and revenue in the fiscal year in which the related charges are incurred.

Works of art

Acquisitions of works of art are charged to the General Fund.

The works of art received as donations during the year are evaluated by experts and, if over \$5 000, must be certified by the Canadian Government's Canadian Cultural Property Export Review Board. Works of art acquired through donations are recorded in the statement of operations of the General Fund when all attendant conditions have been fulfilled.

Financial instruments

Financial assets and liabilities are initially reported at their fair value the date of payment and their subsequent measurement depends on their classification, as described below. Cash on hand is classified as a financial asset held for transaction purposes, investments as available for sale and receivables and subsidies receivable as loans and receivables. Financial assets held for transaction purposes or available for sale are measured at their fair value and loans and receivables are measured at cost after amortization at the effective rate. All financial liabilities are classified under "Other financial liabilities" and measured at cost after amortization at the effective rate. Transaction costs linked to financial assets available for sale and other liabilities are posted directly to net results.

Changes in the fair value of assets available for sale are posted directly to the statement of change in fund balances until the financial asset is sold, at which time these changes are posted to net results for the General Fund as deferred investment income in the balance sheet for the Endowment Fund for the Acquisition of Works of Art.

The Musée opted for the exemption granted by the Canadian Institute of Chartered Accountants (CICA) to non-profit organizations and allowing them not to apply Sections 3862 and 3863 of the CICA Handbook which would otherwise have applied to the Musée's financial statements for the fiscal year ended March 31, 2009. The Musée continues to comply with the requirements of Section 3861 of the CICA Handbook.

Capital assets

Capital assets are recorded at acquisition cost and amortized on a straight-line basis over their estimated service life:

Storerooms for works of art	10 years
Computer system	3 years
Musée furnishings	10 years
Musée equipment	5 years
Audiovisual equipment	3 years
Gift shop equipment	5 years
Restaurant equipment	5 years
Sculpture garden	10 years

Contributions in the form of services

The Musée receives contributions in the form of publicity services. These contributions and the corresponding expenses are assessed at their fair value when they can be reasonably estimated.

The Ministère de la Culture, des Communications et de la Condition féminine provides the Musée with art restoration services free of charge. These services are not shown in the financial statements. The Musée is unable to evaluate these amounts with reasonable assurance.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES (cont'd)**Contributions in the form of services (cont'd)**

Given the difficulty determining the fair value of the services provided free of charge by volunteers, they are not considered the in Musée's revenues and expenses.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Currency conversion

Monetary assets in foreign currency are converted at the exchange rate in effect the date of the balance sheet. Revenues and expenses are converted at the average exchange rate for the fiscal year. Exchange gains or losses are included in the fiscal year's results.

4. CHANGES IN ACCOUNTING POLICY**Future changes in accounting policy**Not-for-profit organizations

In November 2008, CICA released changes to Section 4400, "Financial Statement Presentation for Not-for-Profit Organizations" and Section 4460, "Disclosure of Related Party Transactions by Not for Profit Organizations" and released Section 4470, "Disclosure of Allocated Expenses by Not-for-Profit Organizations". These changes apply to annual financial statement for fiscal years beginning on or after January 1, 2009. Therefore, the Musée will adopt them as of April 1, 2009.

Section 4400 was modified to eliminate the obligation to treat net assets invested in immovables separately from net assets, leaving not-for-profit organizations the possibility of presenting this amount as a category of net assets charged to in-house assignment and supplying explanations according to which revenues and expenses must be reported and presented based on gross amounts when the organization acts on its own behalf in a transaction. Section 4460 was changed to make its wording comply with the provisions of Section 3840, "Related Party Transactions". Section 4470 defines standards governing the information to be provided by a not-for-profit organization which classifies its expenses by function and breaks them down according to the different functions to which they relate. The Musée does not expect that adopting these new sections will significantly impact its financial statements.

Capital disclosures

In December 2006, CICA released Section 1535, "Capital Disclosures", which applies to fiscal years opening on or after April 1, 2008. The Musée will adopt the new standards during its fiscal year beginning April 1, 2009. Section 1535 requires presentation of information on requirements concerning capital under outside rules. The Musée is currently assessing the impact of adopting this new section on its financial statements.

Adjustments – subsidies receivable and deferred subsidies

When preparing the financial statements as at March 31, 2009, the Musée discovered that, in a previous adjustment posted to capital assets, it had omitted adjusting the amount of deferred subsidies. Further, the Musée should have posted a subsidy receivable for asset acquisitions subsidized by funding for maintaining assets prior to their long-term financing.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. CHANGES IN ACCOUNTING POLICY (cont'd)

Adjustments – subsidies receivable and deferred subsidies (cont'd)

The financial statements for the fiscal year ended March 31, 2008 were reworked. The resulting correction increased (decreased) the following financial statement items:

	General Fund 2008	Capital Assets Fund 2008
Opening balance	\$(35 797)	\$446 623
Subsidy receivable		472 890
Deferred subsidy		62 064
Interfund receivables	(35 797)	(35 797)
Closing balance	(35 797)	446 623

5. GOVERNMENT OF CANADA SUBSIDIES FOR SPECIFIC PROJECTS

	2009	2008
Canada Council for the Arts	\$330 000	\$601 500
Department of Canadian Heritage	225 477	77 190
	<u>\$555 477</u>	<u>\$678 690</u>

6. FONDATION DU MUSÉE

The Fondation du Musée d'art contemporain de Montréal is a public foundation under section 149.1(6.3) of the *Income Tax Act*. The Fondation was established as a non-profit organization in 1983 and is headed by an independent Board of Directors, composed of fifteen (15) members, one of whom is a delegate from the Board of Directors and another of whom is a manager with the Musée. The Fondation's main purpose is to support the growth of the Musée d'art contemporain de Montréal, primarily by contributing to the enrichment of its collection. It manages the Musée's gift shop, recruits members, manages memberships, plans volunteer's tasks and promotes fundraising activities.

To help the Fondation fulfil its mandate, the Musée d'art contemporain de Montréal provides it with office space and the services required for its smooth operation (furniture, telephones, photocopiers, computers and printer, office supplies and postage expenses). The Musée also makes space available to the foundation for the special events it organizes.

In 2002, the Fondation ran a major fundraising campaign, *Une Affaire d'Art*, to enhance the Musée's educational activities and expand its collection. The donations received are recorded as revenues in the statement of results when used for the campaign's educational activities. At March 31, 2009, the Fondation had pledges totalling \$36 500 (2008: \$41 500). These pledges will be recorded par le Musée when cashed in future years.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. FONDATION DU MUSÉE (cont'd)**Deferred *Une Affaire d'Art* fundraising campaign donations:

	2009	2008
Opening balance	\$393 533	\$470 033
Donations cashed during the year	5 000	4 000
Amounts recorded as income from donations during the year	(97 550)	(80 500)
Closing balance	<u>\$300 983</u>	<u>\$393 533</u>

During the year, the Musée carried out transactions in the normal course of its operations with the Fondation. Should the Fondation be dissolved or its activities cease, the net assets will go to the Musée. The Fondation's net assets totalled \$638 907 at March 31, 2009 (2008: \$329 032). At the end of the fiscal year, the net balance the Fondation owed to the Musée was \$37 929 (2008: \$17 177).

7. OTHER DONATIONS

	2009	2008
Cash donations	\$42 857	\$66 078
Donations in the form of services	664 899	482 952
	<u>\$707 756</u>	<u>\$549 030</u>

8. INVESTMENT INCOME

	2009	2008
Income from unappropriated resources	\$78 145	\$122 382
Income from resources held in the Endowment Fund for the Acquisition of Works of Art	28 783	153 125
Income from resources held as endowments in Operating Fund	11 880	11 376
Income from the use of deferred amounts slated for presentation of an annual symposium		20 651
Deferred amounts slated for the acquisition of works of art	(28 783)	(153 125)
Deferred amounts slated for presentation of an annual symposium	(11 880)	
	<u>\$78 145</u>	<u>\$154 409</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**9. COLLECTIONS**

The Musée d'art contemporain de Montréal holds 7 000 works of art, including 1 326 in the Lavalin Collection, which the Musée acquired in 1992 through a special \$5 400 000 subsidy from the Gouvernement du Québec. The Musée's overall collection comprises paintings, sculptures, prints, photographs, installation works, films and videos, most of which were produced after 1939, the cut-off date for the period covered by the Musée's activities. The Musée develops its collection in keeping with the mandate entrusted to it under its governing statute, i.e. to ensure a place for contemporary Québec art on the Canadian and international art scenes.

Among other things, the Musée maintains archival collections, comprising primarily the Fonds Borduas, the Fonds Boulerice, the Fonds Mousseau, the Fonds Yves Trudeau, Fonds Marciej Babinski and the Fonds Le Gobelet.

During the fiscal year ended March 31, 2009, the Musée acquired 127 works of art and archives (2008: 108), 40 of which were purchased (2008: 31) for a total of \$315 014 (2008: \$657 502), 87 were from donations (2008: 77) for a total of \$3 901 805 (2008: \$1 234 800).

10. GENERAL FUND – EXTERNAL ASSIGNMENT

The General Fund balance includes \$250 000, which is slated by external assignment for permanent keeping. The investment income related to this amount is used for an annual symposium under external assignment.

11. INTERFUND CONTRIBUTIONS

	General Fund		Commercial Activities Fund		Fundraising Campaign Fund	
	2009	2008	2009	2008	2009	2008
Objects						
Expenses financed by the financing fundraising campaign (a)	\$97 550	\$80 500			\$ (97 550)	\$ (80 500)
Positive fund balance (b)	114 024	108 514	\$ (114 024)	\$ (108 514)		
	<u>\$211 574</u>	<u>\$189 014</u>	<u>\$ (114 024)</u>	<u>\$ (108 514)</u>	<u>\$ (97 550)</u>	<u>\$ (80 500)</u>

(a) Transfer to the General Fund to cover education expenses related to the financing campaign.

(b) Transfer to the General Fund of the portion of the Commercial Activities Fund balance in excess of \$275 000 (Note 2).

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. INVESTMENTS

	2009		2008
	General Fund	Endowment Fund for the Acquisition of Works of Art	Total
			Total
Short-term investments			
Bonds and treasury bills, maturing between April, 2009 and March 2010, interest from 0.20% to 7.00%	\$198 586	\$214 683	\$413 269
			\$140 861
Investments			
Bonds and GICs maturing between:			
1 and 5 years, interest from 3.6% to 6.7%	\$1 011 151	\$309 940	\$1 361 209
6 and 10 years, interest from 4.0% to 7.1%	75 562	268 191	303 635
11 years and more, interest from 4.5% to 8.2 %		346 823	346 823
	1 086 713	924 954	2 011 667
Marketable securities		990 610	990 610
	\$1 086 713	\$1 915 564	\$3 002 277
			\$3 463 690

The net investment income accumulated at March 31, 2009 and available for acquisitions under the Fund's regulations, totalled \$1 014 865 (2008: \$986 082) and is posted to deferred investment income in the General Fund. Net cumulated investment income at March 31, 2009, to be used for an annual symposium under external assignment, totalled \$11 880 (2008: \$0) and was posted to investment income in the General Fund.

13. CAPITAL ASSETS FUND –CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net value
			Net value
Storerooms for works of art	\$633 404	\$630 978	\$2 426
Computer system	366 809	354 377	12 432
Musée furnishings	3 797 022	3 609 690	187 332
Musée equipment	545 344	324 173	221 171
Audiovisual equipment	401 574	381 870	19 704
Gift shop equipment	37 200	37 200	
Restaurant equipment	217 268	141 379	75 889
Sculpture garden	483 281	480 564	2 717
	\$6 481 902	\$5 960 231	\$521 671
			\$316 280

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

14. CAPITAL ASSETS FUND – BANK ADVANCES

	<u>2009</u>	<u>2008</u>
Borrowings from a financial institution, authorized by order-in-council for a maximum amount of \$915 000 (2008: \$1 036 800) and bearing interest at the Institution's Canadian prime rate, i.e. 2.5% at March 31, 2009 (2008: 5.25%).	<u>\$375 896</u>	<u>\$310 000</u>

15. OPERATING FUND – CREDIT LINE

Under Order-in-Council 1720-92 dated December 2, 1992, the Musée is authorized to contract short-term borrowings up to \$1 000 000 from financial institutions. At March 31, 2008 and 2009, no amount owed.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

16. LONG-TERM DEBT – OTHER FINANCIAL LIABILITIES

	2009	
	Capital Assets Fund	
	Book value	Fair value
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.771%, guaranteed by the Gouvernement du Québec, repayable in eight annual instalments of \$311 252 beginning June 3, 2006 and a final instalment of \$2 178 763 on June 3, 2014	\$3 735 023	\$4 138 530
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.076%, guaranteed by the Gouvernement du Québec, repayable in 10 annual instalments of \$83 981 beginning June 1, 2003	67 185	74 062
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.296%, guaranteed by the Gouvernement du Québec, repayable in eight annual instalments of \$41 041 beginning June 28, 2002 and a final instalment of \$287 284 on June 28, 2010	328 325	354 078
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.90%, guaranteed by the Gouvernement du Québec, repayable in 15 annual instalments of \$23 837 beginning July 16, 2006	286 048	320 178
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.379%, guaranteed by the Gouvernement du Québec, repayable in 11 annual instalments of \$11 261 beginning May 10, 2007	101 346	111 106
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.164%, guaranteed by the Gouvernement du Québec, repayable in five annual instalments of \$29 602 beginning October 1 st , 2008 and a final instalment of \$148 005 on October 1 st , 2013	266 414	290 072
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.164%, guaranteed by the Gouvernement du Québec, repayable in five annual instalments of \$12 493 beginning October 1 st , 2008 and a final instalment of \$62 460 on October 1 st , 2013	112 432	122 417
	4 896 773	5 410 443
Minus: current portion	446 281	446 281
	<u>\$4 450 492</u>	<u>\$4 964 162</u>

The principal on these loans is paid in annual instalments out of the Gouvernement du Québec subsidy received for this purpose.

Payments of principal on the long-term debt for the next five fiscal years are:

2010	\$513 466
2011	759 709
2012	472 425
2013	472 425
2014	556 820

2009				2008	
Fundraising Campaign Fund		Total		Total	
Book value	Fair value	Book value	Fair value	Book value	Fair value
		\$3 735 023	\$4 138 530	\$4 046 275	\$4 266 954
\$268 740	\$296 250	335 925	370 312	419 906	450 050
		328 325	354 078	369 366	397 260
		286 048	320 178	309 886	320 112
		101 346	111 106	112 606	115 434
		266 414	290 072		
		112 432	122 417		
268 740	296 250	5 165 513	5 706 693	5 258 039	5 549 810
67 185	67 185	513 466	513 466	471 372	471 372
<u>\$201 555</u>	<u>\$229 065</u>	<u>\$4 652 047</u>	<u>\$5 193 227</u>	<u>\$4 786 667</u>	<u>\$5 078 438</u>

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

17. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

The deferred subsidies shown in the Capital Assets Fund include the non-amortized portion of contributions received and receivable in the form of subsidies.

	<u>2009</u>	<u>2008</u> Reworked – Note 4
Opening balance	\$316 280	\$328 220
Specific subsidy for long-term debt	333 802	107 187
Amortization of deferred subsidies	<u>(128 411)</u>	<u>(119 127)</u>
Closing balance	<u>\$521 671</u>	<u>\$316 280</u>

18. FUTURE FRINGE BENEFITS**Pension plans**

Musée staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The Musée's contributions charged to the year-end statement totalled \$190 208 (2008: \$180 365). Its liability towards these Government plans is restricted to its employer contributions.

In fiscal 2009, the Musée's RREGOP and PPMP contributions rates were 8.19% and 10.54% of the contributory payroll respectively.

Provision for sick leave

	<u>2009</u>	<u>2008</u>
Opening balance	\$762 537	\$794 647
Annual expenses	138 520	147 554
Benefits paid during year	<u>(99 039)</u>	<u>(179 664)</u>
Closing balance	<u>\$802 018</u>	<u>\$762 537</u>

19. COMMITMENTS

Under various contracts, the Musée must make minimum payments for future commitments of \$640 644 (2008: \$864 222). Minimum amounts payable for these commitments for coming fiscal years are:

2010	\$405 281
2011	125 527
2012	109 836

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

20. FINANCIAL INSTRUMENTS

Fair value

The fair value of short-term financial instruments equals their book value given that they mature in the near future.

The fair value of the investments quoted equals their stock market value at the bid price the date of the financial statements. The fair value of fixed-income securities is determined using the assessment methods used in capital markets, such as discounting to the current interest rate as future cash flows.

The fair value of government subsidies receivable cannot be assessed given the absence of a market for this type of financial instrument.

The fair value of the long-term debt is determined using the current market value of future cash flows under current financing agreements and interest rates available on the market to the entity for loans with similar conditions and terms.

Credit risks

The Musée is exposed to credit risks on most of its financial assets. The credit risk is the risk that the other party to the financial asset defaults on its obligations and that this situation results in a financial loss for the Musée. This risk derives primarily from considerations for receivables and investment activities. The Musée's exposure corresponds to the book value of these financial assets.

The Musée considers that its risk associated with receivables is reduced due to its diversified operating in various activity sectors. This risk is managed by creating a provision for these receivables.

The Musée defines limits by investment type so that its portfolios are greatly diversified so as to reduce overall risk.

Interest rate risk

The Musée is exposed to interest rate risk since market interest rate variations generate fluctuations in the fair value or cash flows of certain investments, bank advances and the long-term debt. Since the long-term debt bears interest at a fixed rate, its fair value fluctuates with market interest rates. However, capital repayments on this debt are paid annually from the Gouvernement du Québec subsidy slated for this purpose.

Exchange rate risk

The Musée is exposed to exchange rate risks on its investments in US dollars held in the Endowment Fund for the Acquisition of Works of Art since the fair value or future cash flows of these investments fluctuate due to exchange rate variations. No financial instrument has been issued or acquired to cover this risk.

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Musée is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Musée did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

22. COMPARATIVE FIGURES

Some 2008 figures were reclassified for consistency with the presentation adopted in 2009.

MUSÉE D'ART CONTEMPORAIN DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Musée d'art contemporain de Montréal were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the budget, auditing and management advisory committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Musée's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the budget, auditing and management advisory committee to discuss any matter related to the audit.

Monique Gauthier
Interim Director

Francine Duhamel
Director of Finance

Montréal, May 27, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Musée d'art contemporain de Montréal at March 31, 2009 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Musée as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 27, 2009

MUSÉE DE LA CIVILISATION
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009				2008
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total
					Total
REVENUES					
Gouvernement du Québec subsidies					
Operations	\$19 805 200				\$19 805 200
Other (Note 5)	1 705 828		\$2 694 409	\$626 153	5 026 390
Other subsidies for specific projects	217 575				217 575
Financial sponsorships (Note 6)	2 460 925				2 460 925
Fondation du Musée de la civilisation - contribution (Note 16)	31 000				31 000
Admission fees	1 236 709				1 236 709
Gift shop	576 127				576 127
Exhibition loans	316 265				316 265
Franchises and rentals	704 631				704 631
Sale of goods and services	972 793				972 793
Interest on cash	165 215				165 215
Other	427 935				427 935
	28 620 203		2 694 409	626 153	31 940 765
Sponsorships in exchange for goods and services	992 320				992 320
Amounts carried forward	\$29 612 523		\$2 694 409	\$626 153	\$32 933 085
					\$32 004 104

MUSÉE DE LA CIVILISATION

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009

	2009				2008	
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total	Total
Amounts brought forward	\$29 612 523		\$2 694 409	\$626 153	\$32 933 085	\$32 004 104
EXPENSES						
Salaries and fringe benefits	11 452 860		58 650	23 700	11 535 210	11 424 487
Provision for vacation time and sick leave (Note 13)	1 116 593				1 116 593	1 303 942
Professional services	5 525 403		1 423	56 773	5 583 599	5 554 456
Rent	710 701				710 701	180 864
Transportation and communications	2 153 134			3 083	2 156 217	1 437 058
Furniture, equipment and energy	1 981 418		34 000	475	2 015 893	1 773 771
Maintenance and repairs	987 651		584 900	(360)	1 572 191	1 444 848
Administrative expenses	209 121		5 403	5	214 529	350 939
Municipal and school taxes	2 501 682				2 501 682	2 340 608
Acquisitions for collections	53 792				53 792	52 491
	26 692 355		684 376	83 676	27 460 407	25 863 464
Interest on long-term debt	459 771		707 145	102 788	1 269 704	1 343 094
Amortization of capital assets	1 399 819		1 302 888	439 689	3 142 396	3 130 169
	1 859 590		2 010 033	542 477	4 412 100	4 473 263
Exchange for goods and services						
Professional services	888 691				888 691	1 605 743
Furniture and supplies	103 629				103 629	30 130
	992 320				992 320	1 635 873
	29 544 265		2 694 409	626 153	32 864 827	31 972 600
EXCESS OF REVENUES OVER EXPENSES	\$68 258				\$68 258	\$31 504

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

STATEMENT OF CHANGES IN FUND BALANCES
for the year ended March 31, 2009

	2009				2008	
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total	Total
OPENING BALANCE	\$3 335 746	\$1 244 565			\$4 580 311	\$4 548 807
Excess of revenues over expenses	68 258				68 258	31 504
	3 404 004	1 244 565			4 648 569	4 580 311
Interfund transfers (Note 7)	(181 222)	181 222				
CLOSING BALANCE (Note 8)	<u>\$3 222 782</u>	<u>\$1 425 787</u>			<u>\$4 648 569</u>	<u>\$4 580 311</u>

The notes are an integral part of these financial statements.

MUSÉE DE LA CIVILISATION

BALANCE SHEET
at March 31, 2009

	2009					2008
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total	Total
ASSETS						
Current assets						
Cash on hand (Note 9)	\$3 581 399			\$77 696	\$3 659 095	\$4 994 132
Accounts receivable	1 612 355		\$45 006	42 731	1 700 092	1 227 634
Gouvernement du Québec subsidies receivable (Note 10)	963 916		1 688 232	298 254	2 950 402	3 473 495
Gift shop inventory	216 303				216 303	232 773
Prepaid expenses	1 361 661				1 361 661	821 786
Interfund payables, interest-free, no encashment terms	78 315	\$1 425 787	85 587	86 400		
	<u>7 813 949</u>	<u>1 425 787</u>	<u>1 818 825</u>	<u>505 081</u>	<u>9 887 553</u>	<u>10 749 820</u>
Gouvernement du Québec subsidies receivable (Note 10)	7 495 749		14 687 795	4 865 707	27 049 251	26 386 242
Capital assets (Note 11)	<u>30 315 621</u>		<u>3 595 138</u>	<u>3 211 336</u>	<u>37 122 095</u>	<u>37 762 626</u>
	<u>\$45 625 319</u>	<u>\$1 425 787</u>	<u>\$20 101 758</u>	<u>\$8 582 124</u>	<u>\$74 058 899</u>	<u>\$74 898 688</u>

MUSÉE DE LA CIVILISATION

BALANCE SHEET (cont'd)
at March 31, 2009

			2009			2008
	Working Capital Fund	Reserve Fund	Asset Maintenance Fund	Special Projects Fund	Total	Total
LIABILITIES						
Current liabilities						
Bank overdraft			\$51 525		\$51 525	
Bank loans (Note 12)			1 999 432	\$2 690 976	4 690 408	\$3 033 811
Accounts payable and accrued liabilities	\$1 458 161		571 364	280 150	2 309 675	2 019 678
Accrued interest	207 349		238 466	47 476	493 291	504 545
Provision for vacation time (Note 13)	962 954				962 954	962 160
Deferred contributions (Note 14)	442 508				442 508	750 074
Deferred revenue (Note 16)	172 100				172 100	30 091
Instalments on long- term debt (Note 15)	756 567		1 421 885	250 778	2 429 230	2 928 160
Interfund payables, interest-free, no repayment terms	<u>1 425 787</u>		<u>146 926</u>	<u>103 376</u>		
	5 425 426		4 429 598	3 372 756	11 551 691	10 228 519
Long-term liabilities						
Provision for sick leave (Note 13)	2 014 301				2 014 301	2 206 516
Deferred contributions (Note 14)	27 452 424		3 595 138	3 213 175	34 260 737	34 842 280
Long-term debt (Note 15)	<u>7 510 386</u>		<u>12 077 022</u>	<u>1 996 193</u>	<u>21 583 601</u>	<u>23 041 062</u>
	<u>42 402 537</u>		<u>20 101 758</u>	<u>8 582 124</u>	<u>69 410 330</u>	<u>70 318 377</u>
FUND BALANCES						
Invested in capital assets	2 971 824				2 971 824	3 030 811
In-house allocations (Note 8)		\$1 425 787			1 425 787	1 244 565
Not allocated	<u>250 958</u>				<u>250 958</u>	<u>304 935</u>
	<u>3 222 782</u>	<u>1 425 787</u>			<u>4 648 569</u>	<u>4 580 311</u>
	<u>\$45 625 319</u>	<u>\$14 257 87</u>	<u>\$20 101 758</u>	<u>\$8 582 124</u>	<u>\$74 058 899</u>	<u>\$74 898 688</u>

COMMITMENTS (Note 20)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Margaret F. Delisle
Pascal Moffet

MUSÉE DE LA CIVILISATIONSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$68 258	\$31 504
Items not affecting liquid assets		
Amortization of transaction costs	22 562	16 973
Amortization of capital assets	3 142 396	3 130 169
Amortization of deferred contributions	(2 988 634)	(2 993 016)
Uncapitalized expenses	(768 052)	(1 183 455)
Interest capitalized to the bank borrowing	82 942	131 041
	(440 528)	(866 784)
Change in assets and liabilities related to operations:		
Accounts receivable	(472 458)	(745 626)
Gouvernement du Québec subsidies receivable	523 093	5 178 404
Gift shop inventory	16 470	(3 936)
Prepaid expenses	(539 875)	292 604
Accounts payable and accrued liabilities (Note 18)	218 608	508 498
Accrued interest	(11 254)	(62 336)
Provision for vacation time	794	16 035
Deferred contributions	(307 566)	218 349
Deferred revenue	142 009	(90 972)
Provision for sick leave	(192 215)	62 901
	(622 394)	5 373 921
Cash flows from operating activities	(1 062 922)	4 507 137
INVESTMENT ACTIVITIES		
Acquisition of capital assets and cash flows for investment activities (Note 18)	(2 430 476)	(2 119 796)
FINANCING ACTIVITIES		
New bank loans	2 628 328	3 160 301
Repayment of bank borrowing	(1 054 673)	(3 523 441)
Gouvernement du Québec subsidies received	2 512 134	(1 595 642)
New long-term debt	1 054 673	3 510 119
Long-term debt repayment	(3 033 626)	(2 759 596)
Cash flows from financing activities	2 106 836	(1 208 259)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1 386 562)	1 179 082
OPENING CASH AND CASH EQUIVALENTS	4 994 132	3 815 050
CLOSING CASH AND CASH EQUIVALENTS (Note 18)	\$3 607 570	\$4 994 132

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS at March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée de la Civilisation was established under the *National Museums Act* (R.S.Q., c. M-44) to make known the history and various cultural elements of our civilization, particularly the social and material aspects of the cultures of the occupants of the territory of Québec and the cultures that have contributed to the enrichment of those cultures, to ensure the preservation and development of the ethnographic collection and other representative collections of our civilization and to ensure Québec's participation in the international network of museological events through acquisitions, exhibitions and other cultural activities.

The Musée de la Civilisation has been recognized as a charitable organization under the *Income Tax Act* and is, consequently, eligible for the tax exemption (federal and provincial) pertaining to such organizations.

2. FUND PURPOSES

The **Working Capital Fund** presents the assets, liabilities, revenues and expenses related to the Musée's current operations and commercial activities such as gift shop and restaurant operations and exhibition and room rental. The Musée requires the Government's authorization to acquire, dispose of, or mortgage a building, or lease it for more than 2 years.

At fiscal year-end, any \$50 000 or less excess revenues over expenses can be allocated, in whole or part, to the Reserve Fund's acquisition of collector's pieces reserve. Any excess that exceeds \$50 000 must be allocated to the Reserve Fund exhibition until it reaches the target total of \$600 000. If the exhibition reserve has reached the target total of \$600 000, the Musée may choose to allocate the excess, in whole or part, along with any balances of funds with no specific allocations, to the acquisition of collector's pieces reserve or another reserve or to leave it in the Working Capital Fund.

The **Asset Maintenance Fund** presents the assets, liabilities, revenues and expenses for the different orders-in-council of the Gouvernement du Québec's Asset Maintenance Program.

The **Special Projects Fund** groups together various projects whose financing is ensured via loan orders-in-council specifically authorized by the Ministère de la Culture, des Communications et de la Condition féminine.

The **Reserve Fund** groups the operations of various reserves that were created by a Board of Directors' decision using Working Capital Fund surpluses. At March 31, 2009, this Fund grouped the reserves posted in the financial statements as at March 31, 2008, apart from the preventive improvements – damages reserve, which was abolished on March 31, 2009, and the new acquisition of collector's pieces reserve, which was created on March 31, 2009.

These reserves are:

Car insurance reserve used to cover the \$25 000 deductible stipulated in the Gouvernement du Québec's car insurance order-in-council.

Exhibition reserve used to finance Musée exhibitions when there is an annual fluctuation in exhibition rental, thereby stabilizing the financing targeted by three-year planning. The amounts from this fund are used for temporary exhibitions and, in some cases, related activities.

Acquisition of collector's pieces reserve used to permit the acquisition of collector's pieces based on the recommendation of the collections development committee.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009

3. CHANGE IN ACCOUNTING POLICIES

Recently adopted standards

Inventories

On April 1, 2008, in keeping with the transitional provisions applicable, the Musée applied the recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook's new Section 3031, "Inventories". This new section, which applies to fiscal years opening on or after January 1, 2008, replaces Section 3030, bearing the same name. Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new standard does not affect the Musée's financial performance.

Capital disclosures

On April 1, 2008, in keeping with the transitional provisions applicable, the Musée applied the Canadian Institute of Chartered Accountants (CICA) Handbook's recommendations for Section 1535, "Capital Disclosures". This new section, which takes effect for fiscal years beginning on or after October 1, 2007, defines the standards for disclosing information on the Musée's capital and how it is managed. The new standard covers only information disclosures and has no impact on the Musée's financial performance.

Future accounting standards

Financial instruments

In December 2006, the Canadian Institute of Chartered Accountants (CICA) published the new sections 3862, "Financial Instruments – Disclosures", and 3863, "Financial Instruments – Presentation", which discuss presentation and disclosures governing financial instruments and non-financial derivatives. These new sections replace Section 3861, "Financial Instruments – Disclosure and Presentation".

Following CICA's decision to allow not-for-profit organizations to defer the application of sections 3862 and 3863, the Musée decided to defer their application.

Not-for-profit organizations

In September 2008, CICA changed the preface of the accounting standards applying only to not-for-profit organizations and several sections of the 4400 series and modified other sections of the Handbook accordingly. The main changes are:

- Not-for-profit organizations are included in the field of application of Section 1540, "Cash Flow Statements", and Section 1751, "Interim Financial Statements".
- The obligation to treat net assets invested in capital assets separately from net assets has been eliminated;
- Revenues and expenses must be reported and presented on the basis of gross amounts when the not-for-profit organization acts for itself in the operations in question;
- Additional guidelines have been added regarding appropriate use of the exclusion from the field of application of Section 4430, "Capital Assets Held by NPOs" for small entities.

CICA also released a new section, Section 4470, "Disclosure of Allocated Expenses by Not-for-Profit Organizations", which defines the disclosure standards for NPOs that classify their expenses by operation and break these expenses down into the various operations to which they apply.

These changes apply to fiscal years opening on or after January 1, 2009 and the Musée will implement them as of April 1, 2009. They will have no significant impact on the Musée's performance.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd) at March 31, 2009

4. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main element for which management used estimates and assumptions is the provision for sick leave. Real results may differ from these estimates.

Financial instruments

Initial measurement

Financial instruments are recognized at their fair value the date of the transaction.

Classification and subsequent measurement

Cash and bank overdraft are classified in the category "Held for transaction purposes" and are measured at its fair value.

Accounts receivable are classified in the category "Loans and accounts receivable" and measured a cost after amortization using the effective interest rate method.

Bank borrowings, accounts payable and accrued liabilities, accrued interest, the provision for vacation time and long-term debt are classified under "Other financial liabilities" and measured at cost after amortization using the effective interest rate method. Transaction costs are posted to operations with the exception of those incurred for issuing and modifying long-term borrowing instruments, which are presented with the long-term date and amortized using the effective interest rate method over the duration foreseen for the long-term debt in question. The amortization is included in interest on the long-term debt under operations.

Fair value

The fair value is the amount of the consideration that the parties having jurisdiction agree on acting freely and under fully competitive conditions. These values are determined using a measurement method like the cash flow method discounted to current interest rates.

Incorporated derivatives

The derivatives incorporated into other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contract and reported as derivatives when the economic characteristics and risks they present are not closely linked to those presented by the host contract.

The Musée chose April 1, 2007 as the transition date for embedded derivatives, as stipulated in the transitional provisions of Section 3855. Consequently, only the contracts or financial instruments entered into or modified after the transition date are reviewed to identify the incorporated derivatives.

Contribution reporting

Contributions include subsidies, sponsorships and contributions obtained to produce exhibitions.

Contributions are recorded using the deferral method. Appropriated contributions are posted to revenue in the year the related expenditure is incurred. Non-appropriated contributions are posted to revenue when received or receivable if the amount can be reasonably estimated and its recovery is reasonably certain.

Revenue reporting

Revenues from ticket sales, exhibition, concession and other rentals and service sales are reported when the service is rendered to the client.

Gift shop proceeds and revenues from the sale of products are reported when the good is given to the customer.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009

4. ACCOUNTING POLICIES (cont'd)**Gouvernement du Québec subsidies receivable**

Subsidies receivable for capital assets and their maintenance are posted in the fiscal year the Musée obtained the financing or performed the work entitling it to these subsidies.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave and vacation time

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Musée. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

No actuarial calculation for regarding the provision for vacation time was deemed necessary since the Musée considers that vacation time accumulated will be taken in the next fiscal year.

Acquisitions for Musée collections

Works purchased for the Musée's collections are charged to operations. Donated works are not recorded in the financial statements.

Gift shop inventory

The inventory of the Musée's gift shop is valued at the lower of cost and net realizable value (cost – net value). Cost is determined by the first in, first out (FIFO) method.

Contributions in the form of goods and services

The Musée receives goods and services free of charge, including restoration services for art works and objects from the Ministère de la Culture, des Communications et de la Condition féminine. These contributions are reported in the financial statements at the fair value of the services received when they can be reasonably estimated.

Volunteer services

Due to the difficulty in determining the fair value of the services provided free of charge by volunteers, they are not considered in the Musée's revenues and expenses.

Capital assets

Capital assets are recorded at cost or, if acquired free of charge, at the market value on the date of acquisition. They are amortized on a straight-line basis over their estimated service life as follows:

Buildings	40 years
Building additions and furnishings	10 years
Leasehold improvements	10 years
Furniture and equipment	5 years
Handling, storage, processing and production equipment	5 years
Lighting and sound equipment	5 years
Commercial activity equipment	5 years
Data processing and audiovisual equipment	3 years

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**5. GOUVERNEMENT DU QUÉBEC SUBSIDIES – OTHER**

	2009	2008
Working Capital Fund		
Repayment of interest on long-term debt	\$459 771	\$532 027
Amortization of deferred contributions *	1 246 057	1 246 057
	<u>1 705 828</u>	<u>1 778 084</u>
Assets Maintenance Fund		
Repayment of interest on long-term debt	707 145	789 809
Amortization of deferred contributions *	1 302 888	1 432 445
Uncapitalized expenses	684 376	538 394
	<u>2 694 409</u>	<u>2 760 648</u>
Special Projects Fund		
Repayment of interest on long-term debt	102 788	19 313
Amortization of deferred contributions *	439 689	314 514
Uncapitalized expenses	83 676	645 061
	<u>626 153</u>	<u>978 888</u>
	<u>\$5 026 390</u>	<u>\$5 517 620</u>

* Deferred contributions are amortized at the same rate as capital assets.

6. FINANCIAL SPONSORSHIPS

	2009	2008
Working Capital Fund		
Specific sponsorships received for showing exhibitions and specific projects	\$2 051 725	\$786 350
Gouvernement du Québec contributions for showing exhibitions	409 200	638 246
	<u>\$2 460 925</u>	<u>\$1 424 596</u>

7. INTERFUND TRANSFERS

The Reserve Fund's preventive improvements – damages reserve was abolished on March 31, 2009 and its \$18 778 balance was transferred to the Working Capital Fund's unallocated funds.

Further, \$200 000 was taken from the Working Capital Fund's unallocated funds and transferred to the Reserve Fund's reserve for the acquisition of collector's pieces to supply this new reserve.

MUSÉE DE LA CIVILISATIONNOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**8. FUND BALANCE AT THE END**

At March 31, the Reserve Fund breaks down as:

	2009	2008
Car insurance reserve	\$25 000	\$25 000
Preventive improvements – damages reserve		18 778
Exhibitions reserve	1 200 787	1 200 787
Acquisition of collector's pieces reserve	200 000	
	<u>\$1 425 787</u>	<u>\$1 244 565</u>

9. CASH

Cash bears interest on a daily basis at the prime rate less 1.75%, which at March 31, 2009 was 0.75% (2008: 3.50%).

10. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable posted to current assets are:

	2009	2008
Working Capital Fund		
Interest accrued on long-term debt	\$207 349	\$238 801
Capital repayments on long-term debt payable in the coming fiscal year (Note 15)	<u>756 567</u>	<u>1 276 436</u>
	<u>963 916</u>	<u>1 515 237</u>
Asset Maintenance Fund		
Interest accrued on long-term debt	238 055	246 431
Capital repayments on long-term debt payable in the coming fiscal year (Note 15)	1 421 885	1 400 946
Other subsidies receivable	<u>28 292</u>	<u>40 790</u>
	<u>1 688 232</u>	<u>1 688 167</u>
Special Projects Fund		
Interest accrued on long-term debt	47 476	19 313
Capital repayments on long-term debt payable in the coming fiscal year (Note 15)	<u>250 778</u>	<u>250 778</u>
	<u>298 254</u>	<u>270 091</u>
	<u>\$2 950 402</u>	<u>\$3 473 495</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**10. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)**

Long-term subsidies receivable are:

	2009	2008
Working Capital Fund		
Opening balance of subsidies receivable	\$9 519 253	\$10 995 873
Amortization of transaction costs	9 499	9 499
Capital subsidies on long-term debt	(1 276 436)	(1 486 119)
Balance of subsidies receivable at year-end	8 252 316	9 519 253
Capital repayments on long-term debt payable in the coming fiscal year	(756 567)	(1 276 436)
Balance of long-term subsidies receivable	7 495 749	8 242 817
Asset Maintenance Fund		
Opening balance of subsidies receivable	15 792 828	15 916 371
Subsidies – Capital assets and asset maintenance	1 812 709	1 164 690
Amortization of transaction costs	10 555	7 474
Capital subsidies on long-term debt	(1 506 412)	(1 295 707)
Balance of subsidies receivable at year-end	16 109 680	15 792 828
Capital repayments on long-term debt payable in the coming fiscal year	(1 421 885)	(1 400 946)
Balance of long-term subsidies receivable	14 687 795	14 391 882
Special Projects Fund		
Opening balance of subsidies receivable	4 002 321	1 759 716
Subsidies – history displays		872 858
Subsidies – roofs and masonry	24 544	576 095
Subsidies – outside masonry	16 680	10 792
Subsidies – security system	1 237 534	782 860
Subventions – call to migration	83 676	
Amortization of transactions costs	2 508	
Capital subsidies on long-term debt	(250 778)	
Closing balance of subsidies receivable	5 116 485	4 002 321
Capital repayments on long-term debt payable in the coming fiscal year	(250 778)	(250 778)
Balance of long-term subsidies receivable	4 865 707	3 751 543
	<u>\$27 049 251</u>	<u>\$26 386 242</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**11. CAPITAL ASSETS**

	2009			2008
	Cost	Cumulated depreciation	Net	Net
Total capital assets				
Lands	\$2 480 722		\$2 480 722	\$2 480 722
Buildings	51 192 989	\$22 786 871	28 406 118	29 691 774
Building additions and developments	15 656 249	10 620 942	5 035 307	4 371 372
Leasehold improvements	4 719 230	4 272 341	446 889	533 551
Furniture and equipment	2 198 131	2 098 835	99 296	65 497
Handling, storage, transformation and production equipment	2 730 932	2 676 503	54 429	208 018
Lighting and sound equipment	874 880	803 399	71 481	18 297
Commercial activities equipment	166 418	159 570	6 848	13 615
Data processing and audiovisual equipment	3 205 905	2 684 900	521 005	379 780
	<u>\$83 225 456</u>	<u>\$46 103 361</u>	<u>\$37 122 095</u>	<u>\$37 762 626</u>

	2009			Total
	Operating Fund	Asset Maintenance Fund	Special Projects Fund	
Net value by fund				
Lands	\$2 480 722			\$2 480 722
Buildings	27 395 965	\$1 010 153		28 406 118
Building additions and developments	287 294	1 566 663	\$3 181 350	5 035 307
Leasehold improvements	602	446 287		446 889
Furniture and equipment	49 929	49 367		99 296
Handling, storage, transformation and production equipment	26 542	27 887		54 429
Lighting and sound equipment	7 928	62 264	1 289	71 481
Commercial activities equipment	6 318	530		6 848
Data processing and audiovisual equipment	60 321	431 987	28 697	521 005
	<u>\$30 315 621</u>	<u>\$3 595 138</u>	<u>\$3 211 336</u>	<u>\$37 122 095</u>

12. BANK LOANS

All of the Musée's loans are guaranteed by the Gouvernement du Québec and renewable annually.

All bank borrowings bear interest at the prime rate, which, at March 31, 2009 was 2.50% (2008: 5.25%).

Working Capital Fund

The Gouvernement du Québec authorized the Musée to contract short-term borrowings of \$3 000 000. At March 31, 2009, there was no short-term borrowing (2008: nil).

Asset Maintenance Fund

The Gouvernement du Québec authorized the Musée to borrow a maximum of \$5 583 280 (2008: \$3 279 066).

With the financial institution, the Musée has a borrowing agreement for a maximum of \$5 528 000 (2008: \$3 246 600). At March 31, 2009, the balance of short-term borrowings was \$1 999 432 (2008: \$1 756 953).

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd) at March 31, 2009

12. BANK LOANS (cont'd)

Special Projects Fund

The Gouvernement du Québec authorized the Musée to borrow a maximum of \$10 656 188 (2008: \$9 776 316).

With the financial institution, the Musée has a borrowing agreement for a maximum of \$10 550 682 (2008: \$9 235 000). At March 31, 2009, the balance of short-term borrowings was \$2 690 976 (2008: \$1 276 858).

13. FUTURE FRINGE BENEFITS

Pension plans

Musée de la Civilisation staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

Since January 1, 2008, the Musée's RREGOP contribution rate is 8.19% of the contributory payroll and that of the PPMP is 10.54%.

The Musée's contributions charged to the year-end statement total \$601 088 (2008: \$544 144). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

	2009		2008	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$962 160	\$2 206 516	\$946 125	\$2 143 615
Annual expenses *	832 913	283 680	885 596	418 346
Benefits paid during year	(832 119)	(475 895)	(869 561)	(355 445)
Closing balance	<u>\$962 954</u>	<u>\$2 014 301</u>	<u>\$962 160</u>	<u>\$2 206 516</u>

* The total expenses for the fiscal year is \$1 116 593 in 2009 (2008: \$1 303 942).

The Musée has a sick leave accumulation program, which results in long-term obligations whose cost it bears in their entirety.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure payment.

Obligations under the sick leave accumulation program increase as Musée employees render services to it. The value of these obligations is established using a method that breaks down the program's cost over the employee's working career.

The sick leave accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

Indexation rate	2.69%
Discount rate	4.15%
Average remaining service period of active employees	10 years

MUSÉE DE LA CIVILISATIONNOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**14. DEFERRED CONTRIBUTIONS**

Short-term deferred contributions are linked to amounts received during the fiscal year to cover expenses for certain exhibitions beginning or running into subsequent fiscal years. Changes in the short-term balance are:

	2009	2008
	<u> </u>	<u> </u>
Working Capital Fund		
Opening balance	\$750 074	\$531 725
Contributions recognized during the year	(863 249)	(563 625)
Amount received for subsequent fiscal years	<u>555 683</u>	<u>781 974</u>
Closing balance	<u>\$442 508</u>	<u>\$750 074</u>
With the following breakdown:		
Gouvernement du Québec	\$154 200	\$365 874
Other deferred contributions	<u>288 308</u>	<u>384 200</u>
	<u>\$442 508</u>	<u>\$750 074</u>

Long-term deferred contributions include Gouvernement du Québec commitments for capital assets and their maintenance. Changes in the long-term balance are:

	2009	2008
	<u> </u>	<u> </u>
Working Capital Fund		
Opening balance	\$28 698 481	\$29 944 538
Amortization of deferred contributions	<u>(1 246 057)</u>	<u>(1 246 057)</u>
Closing balance	<u>27 452 424</u>	<u>28 698 481</u>
Asset Maintenance Fund		
Opening balance	3 769 693	4 575 841
Subsidies – Asset maintenance	1 812 709	1 164 691
Amortization of deferred contributions	(1 302 888)	(1 432 445)
Uncapitalized expenses	<u>(684 376)</u>	<u>(538 394)</u>
Closing balance	<u>29 976 060</u>	<u>32 028 265</u>
Special Projects Fund		
Opening balance	2 374 106	1 091 076
Subsidy special projects	1 362 434	2 242 605
Amortization of deferred contributions	(439 689)	(314 514)
Uncapitalized expenses	<u>(83 676)</u>	<u>(645 061)</u>
Closing balance	<u>31 665 790</u>	<u>32 580 947</u>
	<u>\$3 175 143</u>	<u>\$3 407 296</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**15. LONG-TERM DEBT**

Borrowings on a note from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec, presented minus transaction costs of \$94 508 (2008: \$117 070).

	<u>Effective rate</u>	<u>2009</u>	<u>2008</u>
Working Capital Fund			
a) 5.478% repayable in annual instalments of \$432 898 on the principal of the borrowing, issued October 24, 2008	5.637%		\$430 517
b) 5.149% repayable in annual instalments of \$508 413 on the principal of the borrowings, maturing October 1, 2013	5.263%	\$7 597 718	8 099 014
c) 4.153% repayable in annual instalments of \$86 971 on the principal of the borrowing, issued October 1, 2008	4.32%		86 971
d) 3.892% repayable in annual instalments of \$161 692 on the principal of the borrowings, maturing May 10, 2010	4.055%	323 385	485 077
e) 4.546% repayable in annual instalments of \$86 462 on the principal of the borrowings, maturing May 10, 2012	4.735%	345 850	432 312
		8 266 953	9 533 891
Instalments due within one year		(756 567)	(1 276 436)
		<u>7 510 386</u>	<u>8 257 455</u>
Asset Maintenance Fund			
a) 5.948% repayable in annual instalments of \$420 737 on the principal of the borrowing, maturing December 1, 2010	6.079%	3 356 080	3 771 908
b) 4.311% repayable in annual instalments of \$84 528 on the principal of the borrowing, issued October 1, 2008	4.49%		84 528
c) 4.937% repayable in annual instalments of \$320 659 on the principal of the borrowing, issued July 16, 2020	5.064%	3 817 120	4 135 213
d) 4.379% repayable in annual instalments of \$83 658 on the principal of the borrowing, maturing May 10, 2017	4.54%	752 925	836 583
e) 4.557% repayable in annual instalments of \$103 337 on the principal of the borrowing, maturing May 10, 2013	4.685%	930 030	1 033 367
f) 4.546% repayable in annual instalments of \$79 906 on the principal of the borrowing, maturing May 10, 2012	4.735%	319 625	399 531
g) 4.598% repayable in annual instalments of \$308 121 on the principal of the borrowing, maturing October 1, 2013	4.718%	3 373 921	3 678 960
h) 4.164% repayable in annual instalments of \$105 467 on the principal of the borrowing, maturing October 1, 2013	4.313%	949 206	
		23 287 725	25 618 284
Instalments due within one year		(1 421 885)	(1 400 946)
		<u>3 356 080</u>	<u>3 856 436</u>
Special Projects Fund			
a) 4.207% repayable in annual instalments of \$250 778 on the principal of the borrowing, maturing October 1, 2013	4.341%	2 246 971	2 495 241
Instalments due within one year		(250 778)	(250 778)
		<u>1 249 655</u>	<u>1 432 898</u>
		<u>\$7 191 041</u>	<u>\$7 814 173</u>

MUSÉE DE LA CIVILISATIONNOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**15. LONG-TERM DEBT (cont'd)**

Principal payments on these borrowings are made annually and interest payments biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are:

2010	\$2 429 230
2011	4 953 654
2012	1 846 801
2013	1 846 804
2014	10 451 607

16. RELATED PARTY TRANSACTIONS

The Fondation du Musée de la Civilisation, which is subject to significant influence by the Musée, was established under Part III of the *Québec Companies Act* to solicit funds to finance the Musée's cultural and educational activities. In accordance with the regulations governing the Fondation, contributions may be paid to the Musée de la Civilisation only if the Fondation posts a surplus of \$300 000. Furthermore, should the Fondation wind down, its net assets would be remitted to the Musée. The Fondation's net assets as at March 31, 2009 amounted to \$1 017 708 (2008: \$974 351). In order to achieve its objectives, the Musée makes available to the Fondation the personnel needed for its operations to run smoothly. The latter is not separately disclosed in the financial statements.

In 2009, in addition to contributions of \$31 000 (2008: \$100 000) posted to the fiscal year's results, the Fondation also paid the Musée \$80 000 for exhibition or activities to be carried out in 2010. Consequently, this amount was reported under deferred revenues at March 31, 2009.

The Musée national des beaux-arts du Québec agreed, under a long-term occupancy agreement ending June 27, 2023, to rent spaces of the Réserve muséale de la Capitale nationale. Rental income totalled \$174 518 at March 31, 2009 (2008: \$167 004).

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Musée is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to either joint control or significant influence by it. The Musée did not conclude any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

17. COLLECTIONS

The Musée collection comprises 278 064 (2008: 268 292) artefacts and works of art, numerous archival documents and approximately 150 000 rare books. Apart from the items from the national collection transferred to the Musée where it was created in 1984, it includes the acquisitions since this date and the collection and archives of Séminaire de Québec priests.

The Musée gives receipts for most of the works donated. Their value is certified by experts and, for certain pieces, sanctioned by the Canadian Cultural Property Export Review Board. The cumulative value of works donated since 1991 breaks down as:

	2009	2008
Opening balance	\$4 815 254	\$4 481 143
Receipt issued	156 110	334 111
Closing balance	<u>\$4 971 364</u>	<u>\$4 815 254</u>

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009**18. CASH FLOWS**

Cash and cash equivalents break down as follows:

	2009	2008
Cash		
Cash	\$3 659 095	\$4 994 132
Bank overdraft	(51 525)	
	<u>\$3 607 570</u>	<u>\$4 994 132</u>
 <u>Interest paid</u>		
Interest paid to the Gouvernement du Québec's Financing Fund	<u>\$1 258 807</u>	<u>\$1 386 516</u>

The non-monetary operations of operating, financing and investment activities break down as:

	2009	2008
Acquisition of capital assets in consideration of creditors	<u>\$488 213</u>	<u>\$416 824</u>
Subsidies receivable recorded as deferred contributions	<u>\$3 175 143</u>	<u>\$3 407 296</u>

19. FAIR VALUE OF FINANCIAL INSTRUMENTS**Long-term debt**

At March 31, 2009 the fair value of the long-term debt of \$24 012 831 (2008: \$25 969 222) was \$26 777 696 (2008: \$27 633 396), given the discounting of cash flows at market rates for certificates with similar terms and interest rates.

Short-term financial instruments

The book value of short-term financial instruments reflects their fair value, given that they mature in the near future.

Interest rate risks

Interest rate volatility affects the fair value of assets and liabilities (market risks linked to interest rates – fixed) and the Musée's cash and cash equivalents (cash flow risk linked to interest rates– variable).

The long-term debt has a fixed interest rate. Consequently, the Musée's interest rate risk related to cash flows is minimal as is its market risk related to rates, given that the Musée plans to repay it according to the timetable defined.

MUSÉE DE LA CIVILISATION

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
at March 31, 2009

20. COMMITMENTS

The Musée is committed under various contracts maturing until January 2014 to pay \$8 352 912, which breaks down into: \$7 305 867 for mechanical equipment maintenance and \$1 047 045 for exhibitions and activities being prepared. Amounts payable in coming fiscal years are: \$3 357 790 in 2010, \$2 177 609 in 2011, \$1 712 656 in 2012, \$1 046 450 in 2013 and \$58 407 in 2014.

21. INFORMATION ON CAPITAL

The Musée's capital management objectives are:

- Make proper use of the amounts received as subsidies and sponsorships to promote the history and various components of our civilization, through acquisitions, exhibitions, other activities, and subsidies received for maintaining assets in good condition;
- Achieve a balanced budget.

To attain these objectives, Musée management:

- Produces an annual balanced budget;
- On a quarterly basis, produces and submits financial statements and budget highlights to the Board of Directors;
- Periodically reviews programming and rates.

The Musée's capital consists of fund balances and deferred contributions.

The Musée complied with the requirements of its appropriated contributions.

MUSÉE DE LA CIVILISATION**MANAGEMENT'S REPORT**

The financial statements of the Musée de la Civilisation were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Musée's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Claire Simard
Director General

Danielle Poiré
Director of Curatorship and Administration

Québec, May 15, 2009

MUSÉE DE LA CIVILISATION**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Musée de la Civilisation as at March 31, 2009 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present, in all material respects, the Musée's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the changes in accounting policies resulting from the adoption of public-sector standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

France Alain, CA auditor
Senior Director
For the Auditor General of Québec

Québec, May 15, 2009

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC
(R.S.Q., c. M-44)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009					2008
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
REVENUES						
Gouvernement du Québec subsidies (Note 5)	\$11 739 520			\$2 955 292		\$14 694 812
Gouvernement du Canada subsidies (Note 6)	589 033					589 033
Admission and cloakroom fees	2 967 308					2 967 308
Parking		\$377 188				377 188
Gift shop and publications		1 050 156				1 050 156
Royalties – Food services		294 221				294 221
Space rental and ancillary services	4 600	366 016				370 616
Works of art and exhibitions on loan	311 024					311 024
Educational and cultural activities	414 401					414 401
Sponsorships	1 181 240					1 181 240
Contribution - Fondation du Musée national des beaux-arts du Québec (Note 8)	8 079					8 079
Art work donations (Note 9)	1 181 627					1 181 627
Other contributions and partnerships	809 641					809 641
Investment income (Note 10)	149 352	20 223	\$29 132			198 707
Other	70 946					70 946
Amounts carried forward	\$19 426 771	\$2 107 804	\$29 132	\$2 955 292		\$24 518 999
						\$23 738 915

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009

	2009					2008
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
						Total
Amounts brought forward	\$19 426 771	\$2 107 804	\$29 132	\$2 955 292		\$24 518 999
						\$23 738 915
EXPENSES						
Salaries and fringe benefits	8 678 578	450 055				9 128 633
Energy, taxes and insurance	1 974 657					1 974 657
Professional, administrative and other services	2 542 027	152 297				2 694 324
Maintenance, repairs and development	1 139 471	18 302		162 157		1 319 930
Transportation and communications	2 813 014	7 825				2 820 839
Materials and supplies	739 946	438 453				1 178 399
Room rental	218 307					218 307
Acquisition of works of art (Note 9)	1 850 998					1 850 998
Exhibition rental	634					634
Interest on long-term debt	27 910			1 121 017		1 148 927
Other interest	55 888			48 725		104 613
Long-term debt issuing and management costs				9 582		9 582
Amortization of capital assets				1 623 961		1 623 961
	20 041 430	1 066 932		2 965 442		24 073 804
						23 492 938
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ (614 659)</u>	<u>\$1 040 872</u>	<u>\$29 132</u>	<u>\$ (10 150)</u>		<u>\$445 195</u>
						<u>\$245 977</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CHANGES IN FUND BALANCES
for the year ended March 31, 2009

	2009					2008	
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total	Total
OPENING FUND BALANCES	\$44 567	\$400 000	\$1 285 355	\$5 299 521	\$1 043 716	\$8 073 159	\$7 827 182
Excess (deficiency) of revenues over expenses	(614 659)	1 040 872	29 132	(10 150)		445 195	245 977
Interfund transfers (Note 11)	1 040 872	(1 040 872)					
	<u>470 780</u>	<u>400 000</u>	<u>1 314 487</u>	<u>5 289 371</u>	<u>1 043 716</u>	<u>8 518 354</u>	<u>8 073 159</u>
Cumulated net gains posted directly to the statement of change in opening fund balances	35 088				23 082	58 170	229 413
Net variation (during the period) in unrealized gains and losses on financial assets	<u>(193 887)</u>				<u>(121 495)</u>	<u>(315 382)</u>	<u>(171 243)</u>
Cumulated net gains (Losses) posted directly to the statement of change in closing fund balances (Note 12)	<u>(158 799)</u>				<u>(98 413)</u>	<u>(257 212)</u>	<u>58 170</u>
CLOSING FUND BALANCES	<u>\$311 981</u>	<u>\$400 000</u>	<u>\$1 314 487</u>	<u>\$5 289 371</u>	<u>\$945 303</u>	<u>\$8 261 142</u>	<u>\$8 131 329</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009						2008
	General Fund	Commer- cial Activities Fund	Exhibition Fund	Capital Assets Fund	Endow- ment Fund	Total	Total
ASSETS							
Current assets							
Cash on hand, 0.6%		\$1 450 636	\$1 306 890	\$876	\$1 479	\$2 759 881	\$2 999 397
Short-term investments (Note 12)	\$259 650				169 769	429 419	445 464
Accounts receivable and accrued interest (Note 13)	453 719	771	724			455 214	2 535 725
Interfund receivables, interest-free and no encashment terms	2 270 339		6 873				
Subsidies receivable Gouvernement du Québec (Note 14)	36 541			2 768 129		2 804 670	2 724 286
Government of Canada	131 948					131 948	20 930
Stocks		364 241				364 241	385 892
Prepaid expenses	738 628					738 628	539 741
	3 890 825	1 815 648	1 314 487	2 769 005	171 248	7 684 001	9 651 435
Long-term portfolio investments (Note 12)							
	1 979 451				1 237 983	3 217 434	3 345 977
Gouvernement du Québec subsidies receivable (Note 14)							
	35 459			18 190 245		18 225 704	20 080 498
Capital assets (Note 15)							
				27 330 429		27 330 429	28 249 879
	\$5 905 735	\$1 815 648	\$1 314 487	\$48 289 679	\$1 409 231	\$56 457 568	\$61 327 789

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

BALANCE SHEET (cont'd)
as at March 31, 2009

	2009					2008
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
						Total
LIABILITIES						
Current liabilities						
Overdrawn check	\$2 676					\$2 676
Bank loans (Note 16)				\$979 266		979 266
Accounts payable and accrued liabilities (Note 17)	1 923 693	\$3 755				1 927 448
Provision for vacation time (Note 23)	626 904					626 904
Interfund receivables, interest-free and no repayment terms		1 411 893		401 391	\$463 928	
Accrued interest	81 968			490 936		572 904
Customer deposits	450 881					450 881
Deferred contributions (Note 18)	385 909					385 909
Instalments on long-term debt (Note 19)	535 459			2 264 281		2 799 740
	4 007 490	1 415 648		4 135 874	463 928	7 745 728
Provision for sick leave (Note 23)	927 558					927 558
Deferred investment income	623 247					623 247
Deferred contributions (Note 18)				21 694 457		21 694 457
Long-term debt (Note 19)	35 459			17 169 977		17 205 436
	5 593 754	1 415 648		43 000 308	463 928	48 196 426
FUND BALANCES						
Capital asset investments				5 289 371		5 289 371
Internal restrictions		400 000	\$1 314 487		945 303	2 659 790
Non-appropriated funds	311 981					311 981
	311 981	400 000	1 314 487	5 289 371	945 303	8 261 142
	\$5 905 735	\$1 815 648	\$1 314 487	\$48 289 679	\$1 409 231	\$56 457 568
						\$61 327 789

COMMITMENTS (Note 25)
CONTINGENCIES (Note 27)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Claude Côté
Louis Paquet

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009					2008
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
						Total
OPERATING ACTIVITIES						
Excess (deficiency) of revenues over expenses	\$(614 659)	\$1 040 872	\$29 132	\$(10 150)		\$445 195
Items not affecting liquid assets						
Amortization of capital assets				1 623 961		1 623 961
Amortization of deferred contributions – long-term				(1 777 273)		(1 777 273)
	(614 659)	1 040 872	29 132	(163 462)		291 883
Changes in assets and liabilities related to operations						
Accounts receivable and accrued interest	575 805	978	2 406	1 501 318	\$4	2 080 511
Subsidies receivable	(51 529)			1 714 921		1 663 392
Inventories		21 651				21 651
Prepaid expenses	(198 887)					(198 887)
Accounts payable and accrued liabilities	(24 737)	912				(23 825)
Provision for vacation time	(48 804)					(48 804)
Accrued interest	30 357			(24 844)		5 513
Customer deposits and revenues	109 357					109 357
Deferred contributions	(417 243)			603 502		186 259
Provision for sick leave	181 489					181 489
Deferred investment income	58 772					58 772
	214 580	23 541	2 406	3 794 897	4	4 035 428
Cash flows related to operating activities						
Amounts carried forward	\$(400 079)	\$1 064 413	\$31 538	\$3 631 435	\$4	\$4 327 311
						\$5 048 409

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

STATEMENT OF CASH FLOWS (cont'd)
for the year ended March 31, 2009

	2009					2008
	General Fund	Commercial Activities Fund	Exhibition Fund	Capital Assets Fund	Endowment Fund	Total
						Total
Amounts brought forward	<u>\$(400 079)</u>	<u>\$1 064 413</u>	<u>\$31 538</u>	<u>\$3 631 435</u>	<u>\$4</u>	<u>\$4 327 311</u>
INVESTMENT ACTIVITIES						
Acquisition of investments	(660 535)				(412 253)	(1 072 788)
Proceeds from disposal of investments	555 620				346 374	901 994
Acquisition of capital assets				(606 954)		(606 954)
Cash flows related to investments activities	<u>(104 915)</u>			<u>(606 954)</u>	<u>(65 879)</u>	<u>(777 748)</u>
FINANCING ACTIVITIES						
Increase in bank borrowings				597 266		597 266
Repayment of bank borrowings				(1 647 000)		(1 647 000)
New long-term debt				1 655 277		1 655 277
Repayment of long-term debt	<u>(535 460)</u>			<u>(3 764 281)</u>		<u>(4 299 741)</u>
Cash flows related to financing activities	<u>(535 460)</u>			<u>(3 158 738)</u>		<u>(3 694 198)</u>
CHANGE IN CASH	(1 040 454)	1 064 413	31 538	(134 257)	(65 875)	(144 635)
CASH, AT THE BEGINNING	2 313 271	684 511		136	1 479	2 999 397
Interfund cash flow	<u>(1 275 493)</u>	<u>(298 288)</u>	<u>1 275 352</u>	<u>134 997</u>	<u>65 875</u>	<u>(97 557)</u>
CASH, AT THE END (Note 21)	<u>\$(2 676)</u>	<u>\$1 450 636</u>	<u>\$1 306 890</u>	<u>\$876</u>	<u>\$1 479</u>	<u>\$2 757 205</u>

The notes are an integral part of these financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Musée national des beaux-arts du Québec (Musée) was established under the *National Museums Act* (R.S.Q., c. M-44) to contribute to Québec's cultural development by making known, promoting and preserving Québec art of all periods (early to contemporary art) and ensuring a place for international art through acquisitions, exhibitions and other cultural activities.

The Musée national des beaux-arts du Québec was recognized as a charity under the *Income Tax Act* and, as a result, is eligible for the tax exemption applicable to such organizations.

2. FUND OBJECTIVES

The Operating Fund presents the Musée's current operations.

The Commercial Activities Fund presents the Musée's commercial activities such as operation of the bookstore-giftshop, publications, parking and space rental. Under a regulation approved by the Government, the balance of this Fund, which must be used to fund the Musée's commercial activities, may not exceed \$400 000. The Fund's balance must be used to repay loans or finance Musée activities.

The Exhibition Fund was created to finance major international exhibitions whose costs, notably rental and transport, exceed the Musée's operating subsidy or, exceptionally, to fund activities related to these exhibitions. Under a regulation approved by the Board of Directors, the balance of this fund may not exceed \$2 000 000.

The Capital Assets Fund presents the assets, liabilities, products and charges related to capital assets. That portion of the Fund's balance that is not invested in capital assets is reserved for the acquisition of capital assets for the Musée and the payment of related fees. Moreover, the Musée may not, without the Government's prior authorization, acquire, dispose of, mortgage or rent an immovable.

The Endowment Fund presents resources received in the form of endowments. Under a regulation approved by the Government, only investment income from the resources of this Fund may be used for capital assets and the acquisition of works of art for the Musée collection.

3. ACCOUNTING POLICIES

Preparation of the Musée's financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the provision for sick leave. Real results may differ from these estimates.

Contribution reporting

The contributions presented in the Operating Fund include subsidies, sponsorships and other amounts obtained primarily to hold exhibitions and purchase works of art. The contributions presented in the Capital Assets Fund include Gouvernement du Québec subsidies for capital assets and their maintenance.

The Musée uses the deferred method to report contributions. Appropriated contributions are reported as proceeds for the fiscal year in which the related expenses are incurred. Unappropriated contributions are reported as revenues when they are received or receivable if the amount receivable can be reasonably estimated and its recovery is reasonably certain.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES (cont'd)

Contributions in the form of services

The Ministère de la Culture, des Communications et de la Condition féminine provides the Musée with art restoration services free of charge. These services are not shown in the financial statements.

Revenue reporting

Revenue from ticket sales, cloakroom, parking, food service royalties, space rental and related services, art work and exhibition rental, dissemination, educational and cultural activities are posted when the service is rendered to the client.

Revenues from giftshop sales and publications are posted when the good is given to the client.

Works of art

Acquisitions of works of art are charged to the General Fund.

Art works acquired through donations are posted to Operating Fund revenues and expenses once all of the related conditions have been met. The value of works of art acquired through donations is determined by experts and generally sanctioned by the Canadian Cultural Property Export Review Board. Should the donor not accept the Commission's decision, he or she may, within twelve months' of receiving notice of the Commission's first assessment, ask it to reassess the work's fair market value. In such cases, value adjustments are reported in the fiscal year in which the new assessment is released. When the Commission releases its decision after the date the financial statements are produced and the fair value it determines differs from the value determined by the expertise used to determine the acquisition, the value adjustment is posted in the fiscal year following the final calculation.

Endowments

Endowments are recorded as a direct increase in the Endowment Fund's balance, whereas the investment income earned by this Fund is entered as deferred investment income in the Operating Fund and posted to revenue from the appropriate fund in the fiscal year in which the related charges are incurred.

Financial instruments

INITIAL MEASUREMENT

Financial instruments are reported at their fair value the date of the transaction. Transaction costs are posted to results.

CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Cash is classified under "Assets held for transaction purposes" and measured at fair value.

Accounts receivable and accrued interest are classified under "Loans and receivables" and measured at cost after amortization using the effective interest rate method. Interest income is included under "Investment income".

Short-term and long-term investments are classified under "Assets available for sale". These assets are measured at fair value. The related unrealized losses or gains are excluded from net results and presented under fund balances until they are realized or a drop in the financial asset's value is no longer considered temporary. When an asset available for sale is transferred or posts a lasting decline in value, the loss or gain cumulated in the fund balances is reclassified under "Investment income".

Bank borrowings, expenses payable and accrued costs, the provision for vacation time, accrued interest and the long-term debt are classified under "Other financial liabilities". They are measured at their cost after amortization using the effective interest rate method.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)****FAIR VALUE**

The fair value is the amount of the consideration agreed on by parties with jurisdiction acting freely under fully competitive conditions. These values are determined using measurement methods such as quoted market prices.

The market value of securities held in mutual funds is established with respect to the bid price the date of the balance sheet. When the value of the underlying assets held in mutual funds drops, share values also fall.

LASTING DROP IN FINANCIAL ASSETS' VALUE

For financial assets other than those held for transaction purposes, loans and receivables, the Musée determines whether there is an objective indication that these assets have depreciated. If so, the amount that can be recovered is calculated. Should this amount be lower than the assets' book value, a loss for depreciation is posted to results.

EMBEDDED DERIVATIVES

Derivatives embedded in other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contract and reported as derivatives when the economic characteristics and risks they present are not closely linked to those of the host contract.

The Musée chose April 1, 2003 as the transition date for embedded derivatives, as stipulated in the transitional provisions of Section 3855. Consequently, only the contracts or financial instruments entered into or modified after the transition date are reviewed to identify the incorporated derivatives.

Investment income

Investment income is reported according to the number of days the investment was held during the year. Losses or gains on the transfer of investments are established using the average cost method. Redistribution of capital is reported when cashed.

Inventory

Inventory is valued at cost or net realizable value, whichever is lower. Cost is determined using the first in, first out (FIFO) method.

Subsidies receivable

Subsidies receivable for capital assets and their maintenance are recorded the fiscal year the Musée obtains the funding or carries out the work entitling it to these subsidies.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. ACCOUNTING POLICIES (cont'd)

Capital assets

Capital assets are posted at cost or fair market value, if acquired free of charge, at the municipal assessment value on the date of acquisition. They are amortized over their estimated service life on a diminishing-balance basis, at the following rates:

	40 years
Building development	10 years
Outside developments	10 years
Rolling stock	15 years
Specialized equipment	10 years
Furniture and office equipment	5 years
Computer and office automation equipment	3 years

Customer deposits and deferred revenues

Customer deposits and deferred revenues comprise deposits cashed in advance or amounts invoiced for services not rendered, in keeping with contractual agreements.

Deferred contributions

The deferred contributions presented in the General Fund are designed mainly to cover the expenses of certain exhibitions beginning or continuing into subsequent fiscal years and are transferred to revenue in the fiscal year in which the related charges occur.

The deferred contributions presented in the Capital Assets Fund are for capital assets and their maintenance and are posted to revenue using the same method and service life as for amortization of the related capital assets.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand minus bank overdrafts.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Musée lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Musée. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. CHANGES IN ACCOUNTING POLICIES**Adoption of new standards in effect****INVENTORIES**

On April 1, 2008, in keeping with the transitional provisions applicable, the Musée applied the Canadian Institute of Chartered Accountants (CICA) Handbook's recommendations for Section 3031, "Inventories". This new section, which takes effect for fiscal years beginning on or after January 1, 2008, replaces Section 3030, bearing the same name and prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The new standard has no impact on the Musée's financial performance.

CAPITAL DISCLOSURES

On April 1, 2008, in keeping with the transitional provisions applicable, the Musée applied the Canadian Institute of Chartered Accountants (CICA) Handbook's recommendations for Section 1535, "Capital Disclosures". This new section, which takes effect for fiscal years beginning on or after October 1, 2007, defines the standards for disclosing information on the Musée's capital and how it is managed. The new standard covers only information disclosures and has no impact on the Musée's financial performance.

Future accounting standards**FINANCIAL INSTRUMENTS**

In December 2006, the Canadian Institute of Chartered Accountants (CICA) published the new sections 3862, "Financial Instruments – Disclosures", and 3863, "Financial Instruments – Presentation", which discuss presentation and disclosures governing financial instruments and non-financial derivatives. These new sections replace Section 3861, "Financial Instruments – Disclosure and Presentation".

Following CICA's decision to allow not-for-profit organizations to defer the application of sections 3862 and 3863, the Musée decided to defer their application.

These new standards cover only disclosures and presentation and will not affect the Musée's financial performance.

NOT-FOR-PROFIT ORGANIZATIONS

In September 2008, CICA changed the preface of the accounting standards applying only to not-for-profit organizations and several sections of the 4400 series and modified other sections of the Handbook accordingly. The main changes are:

- Not-for-profit organizations are included in the field of application of Section 1540, "Cash Flow Statements", and Section 1751, "Interim Financial Statements".
- The obligation to treat net assets invested in capital assets separately from net assets has been eliminated;
- Revenues and expenses must be reported and presented on the basis of gross amounts when the not-for-profit organization acts for itself in the operations in question;
- Additional guidelines have been added regarding appropriate use of the exclusion from the field of application of Section 4430, "Capital Assets Held by NPOs" for small entities.

CICA also released a new section, Section 4470, "Disclosure of Allocated Expenses by Not-for-Profit Organizations", which defines the disclosure standards for NPOs that classify their expenses by operation and break these expenses down into the various operations to which they apply.

Management deems that applying the new standards will have no significant impact on its financial statements.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. GOUVERNEMENT DU QUÉBEC SUBSIDIES**

	2009		2008
	General Fund	Capital Assets Fund	Total
Operating expenses	\$11 526 392		\$11 526 392
Specific projects *	210 218		219 000
Interest on long-term debt and other interest	2 910	\$1 178 019	1 180 929
Long term – Amortization of deferred contributions		1 777 273	1 777 273
	<u>\$11 739 520</u>	<u>\$2 955 292</u>	<u>\$14 694 812</u>
			<u>\$14 939 521</u>

* These subsidies are obtained primarily for exhibitions.

6. GENERAL FUND - GOVERNMENT OF CANADA SUBSIDIES

	2009	2008
Foreign Affairs and International Trade	\$30 350	
Heritage Canada	48 329	\$10 930
Canada Council for the Arts	510 354	347 646
	<u>\$589 033</u>	<u>\$358 576</u>

7. NON-MONETARY TRANSACTIONS – OPERATING FUND

The Musée exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the following items in the statement of operations at the fair value of the goods and services exchanged:

	2009	2008
Revenues		
Admission and cloakroom fees	\$39 055	\$12 441
Room rental and related services	4 600	4 570
Educational and cultural activities	180	22 771
Sponsorships and publicity	422 489	211 527
	<u>\$466 324</u>	<u>\$251 309</u>
Expenses		
Professional, administrative and other services	\$5 604	\$987
Transportation and communications	460 609	250 077
Supplies	111	245
	<u>\$466 324</u>	<u>\$251 309</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. GENERAL FUND – FONDATION DU MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC CONTRIBUTION**

The Fondation du Musée national des beaux-arts du Québec, on which the Musée exercises notable influence, is incorporated under Part III of the Québec Companies Act and promotes the Musée national des beaux-arts du Québec's interests in carrying out its mandate, enriching the Musée's permanent collection, and seeking and receiving donations, subsidies, bequests and other contributions of a similar nature. To help the Fondation fulfil its mandate, the Musée provides it with office space and staff required for smooth operation. Should the Fondation wind down, the full balance of funds would be remitted to the Musée. Fund balances as at March 31, 2009 totalled \$545 921 (2008: \$618 275). In the fiscal year, the Fondation contributed \$8 079 (2008: \$9 347).

9. GENERAL FUND – WORKS OF ARTS

Works owned by the Musée du Québec are divided between the permanent and study collections and the collection of works for loan.

The Musée's permanent and study collection comprises 32 559 art work in the following categories: architecture, decorative arts and design, graphic arts, ethnology, installations, painting, photography, sculpture, mixed techniques, video films. This collection encompasses mainly Québec art from all periods—early art to current art.

The collection of works for loan was established by the Ministère des Affaires culturelles in 1982 to stimulate artistic creation in Québec through acquisition of works by young artists. This collection of 1 717 works, which contains the same type of works as the permanent collection, is intended for show primarily in public buildings of the Gouvernement du Québec and in Québec delegations abroad.

In the fiscal year, the Musée acquired 390 works (2008: 516), including value adjustments where applicable, for \$1 850 998 (\$4 292 436 in 2008), i.e. \$669 371 by purchase (\$374 013 in 2008) and \$1 181 627 by donation (\$3 918 423 in 2008).

10. INVESTMENT INCOME

	2009	2008
Income from resources available for sale – held as endowments		
Realized losses on transfer of investments	\$(1 602)	\$(5 044)
Realized gains on transfer of investments	3 761	14 840
Realized losses on transfer of mutual fund investments	56 579	70 384
	<u>58 738</u>	<u>80 180</u>
Income from resources available for sale – other		
Realized losses on transfer of investments	(2 732)	(6 828)
Realized gains on transfer of investments	6 447	22 894
Realized losses on transfer of mutual fund investments	101 201	123 844
	<u>104 916</u>	<u>139 910</u>
Interest income from resources held for transaction purposes – held as endowments	<u>34</u>	<u>60</u>
Interest income from resources held for transaction purposes – other	<u>93 791</u>	<u>134 479</u>
Total investment income earned in the fiscal year	257 479	354 629
Deferred amounts appropriated to capital assets and acquisition of works of art for the Musée collection	<u>(58 772)</u>	<u>(80 240)</u>
Total investment income posted to revenues	<u>\$198 707</u>	<u>\$274 389</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. INTERFUND TRANSFERS**

An amount of \$1 040 872 (2008: \$657 749), representing the portion of the Commercial Activities Fund balance exceeding \$400 000, was transferred to the Operating Fund to finance disbursements to repay Musée borrowings or activities (Note 2).

No amount was transferred from the General Fund to the Exhibition Fund (2008: \$200 000).

12. INVESTMENTS

Investments comprise only common investment fund shares. The latter are administered by an outside investment fund manager under a management agreement and investment policy stipulating the distribution of assets to respect. Investments in mutual funds have no contractual maturity date.

General Fund	2009		2008	
	Book value (fair value)	Cost	Book value (fair value)	Cost
SHORT-TERM INVESTMENTS				
Money Market Fund, effective rate of 1.2%	<u>\$259 650</u>	<u>\$260 683</u>	<u>\$272 079</u>	<u>\$273 104</u>
LONG-TERM INVESTMENTS				
Bond Fund, effective rate of 3.94%	<u>\$1 327 959</u>	<u>\$1 293 071</u>	<u>\$1 517 055</u>	<u>\$1 486 527</u>
Stock Fund	<u>651 492</u>	<u>844 146</u>	<u>538 939</u>	<u>533 354</u>
	<u><u>\$1 979 451</u></u>	<u><u>\$2 137 217</u></u>	<u><u>\$2 055 994</u></u>	<u><u>\$2 019 881</u></u>
Endowment Fund				
	2009		2008	
	Book value (fair value)	Cost	Book value (fair value)	Cost
SHORT-TERM INVESTMENTS				
Money Market Fund, effective rate of 1.2%	<u>\$169 769</u>	<u>\$170 463</u>	<u>\$173 385</u>	<u>\$174 050</u>
LONG-TERM INVESTMENTS				
Bond Fund, effective rate of 3.94%	<u>\$835 419</u>	<u>\$813 095</u>	<u>\$954 354</u>	<u>\$934 555</u>
Stock Fund	<u>402 564</u>	<u>522 607</u>	<u>335 629</u>	<u>331 681</u>
	<u><u>\$1 237 983</u></u>	<u><u>\$1 335 702</u></u>	<u><u>\$1 289 983</u></u>	<u><u>\$1 266 236</u></u>

Unrealized gains and losses resulting from re-measurement of the fair value of investments and cumulated to fund balances detail as follows:

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. INVESTMENTS (cont'd)**

General Fund	<u>2009</u>	<u>2008</u>
Unrealized losses *	\$(193 687)	\$(8 853)
Unrealized gains	<u>34 888</u>	<u>43 941</u>
	<u><u>\$(158 799)</u></u>	<u><u>\$35 088</u></u>
 Endowment Fund	 <u>2009</u>	 <u>2008</u>
Unrealized losses *	\$(120 737)	\$(6 292)
Un realized gains	<u>22 324</u>	<u>29 374</u>
	<u><u>\$(98 413)</u></u>	<u><u>\$23 082</u></u>

* The book value of investments was not reduced by a lasting decline in value, given that the drop in value is due to a one-time event. Consequently, no decline in value was posted to results.

13. CLAIMS AND ACCRUED INTEREST

	<u>2009</u>	<u>2008</u>
Fondation du Musée national des beaux-arts du Québec, interest-free	\$29 261	\$10 064
Accrued interest	2 001	10 813
Taxes receivable	105 074	151 662
Contribution receivable and other accounts receivable	<u>318 878</u>	<u>2 363 186</u>
	<u><u>\$455 214</u></u>	<u><u>\$2 535 725</u></u>

14. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE**Operating Fund**

Short-term Gouvernement du Québec subsidies receivable are:

	<u>2009</u>	<u>2008</u>
Interest receivable	\$1 082	\$1 611
Repayment of capital on long-term debt next fiscal year	35 459	35 460
Other subsidies receivable	<u>23 500</u>	<u>23 500</u>
	<u><u>\$36 541</u></u>	<u><u>\$60 571</u></u>

Long-term subsidies receivable are:

	<u>2009</u>	<u>2008</u>
Subsidies receivable for exhibitions	\$70 918	\$106 378
Repayment of capital on long-term debt next fiscal year	<u>(35 459)</u>	<u>(35 460)</u>
	<u><u>\$35 459</u></u>	<u><u>\$70 918</u></u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**14. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE (cont'd)****Capital Assets**

Short-term Gouvernement du Québec subsidies receivable are:

	2009	2008
Interests receivable	\$503 848	\$564 962
Repayment of capital on long-term debt next fiscal year	2 264 281	2 098 753
	<u>\$2 768 129</u>	<u>\$2 663 715</u>

Long-term subsidies receivable are:

	2009	2008
Subsidies receivable for capital assets and their maintenance	\$20 454 526	\$22 108 333
Repayment of capital on long-term debt next fiscal year	(2 264 281)	(2 098 753)
	<u>\$18 190 245</u>	<u>\$20 009 580</u>

15. CAPITAL ASSETS FUND – CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Land *	\$5 110 250		\$5 110 250
Buildings *	44 274 059	\$24 989 858	19 284 201
Building development	3 733 558	2 428 959	1 304 599
Outside development	412 990	172 091	240 899
Automotive equipment	170 609	56 464	114 145
Specialized equipment	1 718 046	960 925	757 121
Office furniture and equipment	221 109	171 909	49 200
Computer and office automation equipment	518 759	384 888	133 871
Construction under way	336 143		336 143
	<u>\$56 495 523</u>	<u>\$29 165 094</u>	<u>\$27 330 429</u>
			<u>\$28 249 879</u>

* The Musée acquired some of these capital assets from the Gouvernement du Québec in 1985 and 1988 for \$1 each. They were posted at the municipal assessment value for these years, i.e. \$1 210 250 for the lands and \$6 358 900 for the buildings. Subsequently, the Government authorized various expansion projects and major repairs.

16. BANK BORROWINGS**Operating Fund**

The Gouvernement du Québec authorized the Musée, by order-in-council, to contract a credit line not to exceed \$1 500 000 for its operations. At March 31, 2009, the Musée had not contracted this borrowing.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**16. BANK BORROWINGS (cont'd)****Capital Assets Fund**

The Gouvernement du Québec authorized the Musée to contract the following bank borrowings for capital assets maintenance:

	2009	2008
Credit line payable on demand, authorized by order-in-council for a maximum of \$829 400 bearing interest at the prime rate, maturing August 31, 2009.	\$800 266	\$613 000
Credit line payable on demand, authorized by order-in-council for a maximum of \$814 400 bearing interest at the prime rate, maturing August 31, 2009.	179 000	
Credit line payable on demand, authorized by order-in-council for a maximum of \$821 600 bearing interest at the prime rate, maturing August 31, 2008.		673 000
Credit line payable on demand, authorized by order-in-council for a maximum of \$825 400 bearing interest at the prime rate, maturing August 31, 2008.		743 000
	<u>\$979 266</u>	<u>\$2 029 000</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings, including borrowing fees for long-term financing, totalled \$3 351 584 (2008: \$3 323 708). The bank's prime rate was 0.95% at March 31, 2009 (5.25% at March 31, 2008).

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Salaries and fringe benefits payable	\$922 690	\$402 428
Other expenses payable	1 004 758	1 548 845
	<u>\$1 927 448</u>	<u>\$1 951 273</u>

18. DEFERRED CONTRIBUTIONS**Operating Fund**

	2009	2008
Opening balance	\$803 152	\$255 450
Amount posted to revenue for the fiscal year	(803 152)	(224 057)
Amount received for subsequent fiscal years	385 909	771 759
Closing balance	<u>\$385 909</u>	<u>\$803 152</u>
Breaking down as follows:		
Gouvernement du Québec	\$313 409	
Gouvernement du Canada		\$146 354
Other deferred income	72 500	656 798
	<u>\$385 909</u>	<u>\$803 152</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**18. DEFERRED CONTRIBUTIONS (cont'd)**

Capital Assets Fund	<u>2009</u>	<u>2008</u>
Opening balance	\$22 868 228	\$24 293 234
Impact of entering long-term debt issuing and management costs as expenses (Note 4)		(150 785)
Gouvernement du Québec subsidies	603 502	645 234
Amortization of deferred contributions	<u>(1 777 273)</u>	<u>(1 919 455)</u>
Closing balance	<u>\$21 694 457</u>	<u>\$22 868 228</u>

19. LONG-TERM DEBT

Operating Fund	<u>2009</u>	<u>2008</u>
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 3.882%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$35 460, maturing in May 2010 *	\$70 918	\$106 378
Note to charge, 5%, repayable in annual instalments of \$500 000, maturing in April 2009	<u>500 000</u>	<u>1 000 000</u>
	570 918	1 106 378
Instalments due within one year	<u>(535 459)</u>	<u>(535 460)</u>
	<u>\$35 459</u>	<u>\$570 918</u>

* Principal payments on the borrowing are made annually and interest is paid biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the three fiscal years are:

2010	\$535 459
2011	\$35 459

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**19. LONG-TERM DEBT** (cont'd)**Capital Assets Fund**

	2009	2008
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 6.261%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$1 430 584, maturing in April 2017. *	\$12 875 262	\$14 305 847
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 5.825%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$164 416 on the principal of the borrowing, maturing in December 2010. *	493 243	657 658
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.652%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$176 913, maturing in October 2014.*	1 061 478	1 238 391
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.911%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$245 329 , maturing in July 2020.*	2 943 952	3 189 281
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.692%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$81 511 , maturing in March 2016 *	570 574	652 085
Borrowing on a note from the Financing Fund of the Gouvernement du Québec, 4.164%, guaranteed by the Gouvernement du Québec, repayable in annual instalments of \$165 528 , maturing in October 2013.*	1 489 749	1 500 000
Payable cash, repayable into fiscal year	19 434 258	21 543 262
Instalments due within one year	(2 264 281)	(3 598 753)
	<u>\$17 169 977</u>	<u>\$17 944 509</u>

* Principal payments on these borrowings are made annually and interest is paid biannually using subsidies provided for this purpose by the Gouvernement du Québec.

Payments of principal on the long-term debt for the next five fiscal years are:

2010	\$2 264 281
2011	\$2 428 696
2012	\$2 099 865
2013	\$2 099 865
2014	\$2 761 976

20. CAPITAL DISCLOSURES

The Musée's capital comprises fund balances and deferred contributions.

The Musée manages its capital by cautiously managing its revenues, expenses, assets and liabilities to ensure that it performs the duties specified in its incorporating legislation effectively while complying with contributors' requirements.

The Musée has achieved a balanced budget and respected the conditions governing the contributions received.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**21. CASH FLOWS**

Cash breaks down as follows:

	2009	2008
Cash on hand	\$2 759 881	\$2 999 397
Bank overdraft	(2 676)	
	<u>\$2 757 205</u>	<u>\$2 999 397</u>

Operating, investment and financing activities' non-monetary operations break down as follows:

	2009	2008
Net latent gains (losses) on investments	\$(315 382)	\$58 170
Capital assets acquired in consideration of interfund debts	\$(97 557)	\$(39 947)

Interest paid during the year totalled \$1 248 027 (2008: \$1 450 789).

22. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, the Musée is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Musée did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

23. FUTURE FRINGE BENEFITS**Pension plans**

Musée staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Civil Service Superannuation Plan (CSSP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The agency's RREGOP contribution rate remained unchanged at 8.19% of the contributory payroll, that of the PPMP, 10.54%, and that of the CSSP, 7.25%.

The Musée's contributions charged to the year-end statement total \$357 453 (2008: \$302 521) for the General Fund and \$18 086 (2008: \$10 512) for the Commercial Activities Fund. Its liability towards these Government plans is restricted to its employer contributions.

Provision for vacation time and sick leave

	2009		2008	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	\$675 708	\$746 069	\$664 210	\$846 976
Annual expenses	598 673	370 236	544 058	149 081
Benefits paid	(647 477)	(188 747)	(532 560)	(249 988)
Closing balance	<u>\$626 904</u>	<u>\$927 558</u>	<u>\$675 708</u>	<u>\$746 069</u>

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

23. FUTURE FRINGE BENEFITS (cont'd)**MEASUREMENT AND SUBSEQUENT ESTIMATES**

This sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009:

Indexation rate	2.5% to 3.25%
Discount rate	3.5% to 4.25%
Average remaining service period of active employees	5 to 23 years

The provision for vacation time was not actualized given that the Musée deems that vacation time accumulated will be taken the following fiscal year.

24. FINANCIAL INSTRUMENTS**Financial assets and liabilities****CURRENT ASSETS AND LIABILITIES**

With the exception of short-term investments whose fair value is described in Note 12, the fair value of short-term financial instruments equals their book value, given that they mature in the near future.

LONG-TERM INVESTMENTS

The fair value of investments is presented in Note 12.

LONG-TERM DEBT

At March 31, 2009, the fair value of borrowings on a bill from the Financing Fund and the amount payable from the Operating Fund totalling \$20 005 176 (2008: \$21 149 640) was \$22 490 899 (2008: \$23 346 117), given that cash flows were discounted at the market rate for agreements with similar maturity dates and interest rates.

Interest rate risks

Interest rate volatility affects the fair value of assets and liabilities (market risks linked to interest rates – fixed) and the Musée's cash and cash equivalents (cash flow risk linked to interest rates – variable).

The Musée manages its investment portfolio according to its cash requirements and to optimize its interest income.

The long-term debt has a fixed interest rate. Consequently, the Musée's risk is minimal, given that the Musée plans to repay it when it matures.

25. COMMITMENTS

The Musée signed a long-term occupancy agreement with the Musée de la Civilisation ending June 27, 2023 for rental of spaces of the Réserve muséale de la Capitale nationale.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**25. COMMITMENTS** (cont'd)

Rental costs, adjusted to reflect real operating costs, posted to results totalled \$174 518 (2008: \$167 003). Minimum future payments are:

2010	\$180 904
2011	\$180 904
2012	\$180 904
2013	\$180 904
2014	\$180 904
2015 and thereafter	\$1 673 362

The Musée also made commitments under various contracts running until October 2011 to pay \$1 936 035 primarily for architectural and engineering services linked to a potential expansion project (\$76 117), building and equipment security and maintenance services (\$1 507 480) and exhibitions rentals (\$352 438).

The amounts payable in the coming years are: \$1 182 324 in 2010, \$735 896 in 2011 and \$17 815 in 2012.

26. OBLIGATIONS LINKED TO RETIREMENT OF CAPITAL ASSETS

The Musée owns a building and property acquired for an expansion project. Should the project go ahead, the Musée will have to pay decontamination costs. These costs, whose fair value cannot be reasonably estimated given the level of uncertainty surrounding the project, will be capitalized at the cost of this expansion up to the amount of future advantages, once the work to be done is known and their fair value can be estimated.

27. CONTINGENCIES

Following the adoption of the *Pay Equity Act* on November 21, 1996, the Musée must assess its different job categories. On the date the financial statements were prepared, the Musée was unable to assess the amount it might have to pay for non-unionized employees, if applicable, given that this process was not yet completed. Consequently, no amount was posted in the financial statements for non-unionized employees.

28. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

MUSÉE NATIONAL DES BEAUX-ARTS DU QUÉBEC**MANAGEMENT'S REPORT**

for the year ended March 31, 2009

The financial statements of the Musée national des beaux-arts du Québec (Musée) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management conducts audits periodically to ensure that the internal controls applied regularly by the Musée are appropriate and consistent.

The Musée recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Musée's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Esther Trépanier
Executive Director

Jean-François Fusey, CA
Director, Administration and Communications

Québec, May 22, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Musée national des beaux-arts du Québec as at March 31, 2009 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Musée management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, with the exception of the effects disclosed, in the preceding paragraph, of improper recording of expenses related to Musée employees' sick leave and vacation time, these financial statements present fairly, in all material respects, the financial position of the Musée as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, in light of the changes to the accounting policies for financial instruments as disclosed in Note 4, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 22, 2009

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS
(R.S.Q., c. O-2.1)

INCOME AND ACCUMULATED SURPLUS
for the year ended June 30, 2008

	<u>2008</u>	<u>2007</u>
REVENUE		
Gouvernement du Québec contribution	\$20 964 393	\$20 775 788
Interest	<u>35 582</u>	<u>26 951</u>
	<u>20 999 975</u>	<u>20 802 739</u>
EXPENDITURE		
Income security benefits	... 18 873 893	... 18 744 588
Administrative expenses		
Salaries and fringe benefits	1 077 769	1 041 134
Travel	150 400	191 924
Rent	97 395	96 315
Professional fees	43 909	22 441
Data processing and maintenance	154 024	149 742
Supplies	73 000	68 277
Telephone and communications	23 690	20 348
Bank and interest fees	13 983	24 571
Depreciation of fixed assets	8 683	6 267
Depreciation of intangible assets	<u>180 930</u>	<u>180 930</u>
	... 1 823 783	... 1 801 949
	<u>20 697 676</u>	<u>20 546 537</u>
EXCESS REVENUE OVER EXPENDITURE	302 299	256 202
ACCUMULATED SURPLUS, BEGINNING OF YEAR	<u>437 398</u>	<u>181 196</u>
ACCUMULATED SURPLUS, END OF YEAR	<u><u>\$739 697</u></u>	<u><u>\$437 398</u></u>

The accompanying notes are an integral part of the financial statements.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**BALANCE SHEET**
as at June 30, 2008

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash (Note 3)	\$176 771	\$187 716
Term deposits (Note 4)	600 000	850 000
Accounts receivable (Note 5)	3 112 298	3 079 770
Prepaid expenses	<u>13 972</u>	<u>10 348</u>
	3 903 041	4 127 834
Capital assets (Note 6)	<u>139 396</u>	<u>323 373</u>
	<u><u>\$4 042 437</u></u>	<u><u>\$4 451 207</u></u>
LIABILITIES		
Current liabilities		
Loan (Note 7)	\$96 639	\$334 327
Accounts payable and accrued liabilities (Note 8)	3 203 591	3 130 455
Owed to Insurance Fund (Note 14)	2 510	24 027
Deferred revenues (Note 9)	<u>525 000</u>	<u>525 000</u>
	3 302 740	4 013 809
ACCUMULATED SURPLUS	<u>739 697</u>	<u>437 398</u>
	<u><u>\$4 042 437</u></u>	<u><u>\$4 451 207</u></u>
COMMITMENTS (Note 10)		
INSURANCE FUND (Note 14)		

The accompanying notes are an integral part of the financial statements.

On behalf of the Cree Hunters and Trappers
Income Security Board
Willie Iserhoff
Gérald Lemoyne

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

1. CONSTITUTION, PURPOSE AND FUNDING

The Cree Hunters and Trappers Income Security Board, created pursuant to the *Act respecting Cree Hunters and Trappers Income Security Board* (R.S.Q., chapter O-2.1), is responsible for managing the income security program established under this Act for the purpose of providing the trappers and hunters with a guaranteed income; this program also includes other measures aimed at encouraging beneficiaries to carry out harvesting activities as a way of life.

Benefits are paid to eligible beneficiary units according, among other things, to the time spent hunting, fishing and trapping and carrying out related activities.

In accordance with federal and provincial income tax acts, the Board is not subject to income tax.

2. ACCOUNTING POLICIES

The Board's financial statements were prepared in accordance with Canadian generally accepted accounting principles. As such, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditure during the period. Actual results could differ from these estimates.

Cash flow

The cash flow statement has not been presented, since it contains no additional information that would be useful for understanding cash flows during the year.

Revenues

Unrestricted contributions of the gouvernement du Québec are recognized as revenues when they are received or are receivable, if the amount that is receivable can be reasonably estimated and if its receipt is reasonably assured.

Restricted contributions are recognized as revenues of the year in which the related expenditures are incurred.

The other revenues are recognized as they are earned and when their collection is reasonably assured.

Benefits

Benefits are posted when authorized and when the beneficiary meets the eligibility criteria, should there be any. The amounts relative to the recovery of the overpayments are recorded when they are recovered given the uncertainty concerning of the collection of these last ones.

Term deposits

Term deposits are accounted for at the lowest value (cost or net realizable value).

Capital assets

The fixed assets are accounted at their cost and are depreciated using the straight-line method on their estimated useful life which are:

	<u>Period</u>
Leasehold improvements	7 years
Furniture and equipment	5 years
Computer equipment	3 years

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2008

2. ACCOUNTING POLICIES (cont'd)**Capital assets (cont'd)**

The Board assesses the carrying value of its fixed assets on an ongoing basis. In order to determine if there is an impairment, management assesses the estimated undiscounted cash flows that will be generated by its fixed assets. Any permanent impairment in value is charged to income in the period during which the impairment occurred. The estimation of the future cash flows as well as the determination of the fair value require the exercise of the professional judgment and can vary in the time.

The intangible assets, consisting of software, are accounted at their cost and are depreciated using the straight-line method on their estimated useful life which is five years.

They are subject to a depreciation test when changes in condition suggest that their book value could be uncollectible. Any surplus of the book value over the fair value is allocated to the statements for the period during which the depreciation was established.

Pension plans

The accounting procedure used for defined contribution plans is applied to multiemployer government defined benefit plans, given that the Board lacks sufficient information to apply the accounting procedure for defined benefit plans.

Future changes in accounting policy

The CICA issued Section 3064 – “Goodwill and intangible assets” which replaces Section 3062 – “Goodwill and other intangible assets”, and 3450 – “Research and development costs”. This new Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. This Section applies to annual financial statements relating to fiscal years beginning on or after October 1, 2008. The adoption of this new accounting standard will not have a significant impact on the Board’s financial statements.

3. CASH

Cash includes a sum of \$30 000 held in a trust account and allocated by resolution of the members of the Board for the payments of benefits including, among other things, advance payments and emergency payments when the usual cheque-issuing procedure would cause excessive delays for the beneficiary.

4. TERM DEPOSITS

The Board has a term deposit bearing interest rate at 2.75% (2007: 3.65% to 3.9%), expiring on July 7, 2008.

5. ACCOUNTS RECEIVABLE

	2008	2007
Ministère de l’Emploi et de la Solidarité sociale		
subsidy receivable	\$3 068 582	\$3 017 459
Other	43 716	62 311
	<u>\$3 112 298</u>	<u>\$3 079 770</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2008

6. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Fixed assets			
Leasehold improvements	\$18 416	\$13 812	\$4 604
Furniture and equipment	2 596	863	1 733
Computer equipment	19 523	9 276	10 247
	<u>40 535</u>	<u>23 951</u>	<u>16 584</u>
Intangible assets			
Software	904 650	781 838	122 812
	<u>\$945 185</u>	<u>\$805 789</u>	<u>\$323 373</u>

The financial year purchases add up to \$5 636.

7. CREDIT FACILITIES

On June 30, 2008, the Board has a credit line of \$2 000 000 with the Financing Fund guaranteed by the Ministère de l'Emploi et de la Solidarité sociale until December 31, 2008. Amounts used bear interest at the average bank acceptance rate raised of 0.3% which represents 3.46% as at June 30, 2008 (2007: 4.77%).

8. ACCOUNTS PAYABLE

	2008	2007
Income security benefits	\$3 122 448	\$3 048 358
Ministère de l'Emploi et de la Solidarité sociale	1 872	1 404
Suppliers	19 813	26 911
Salaries and fringe benefits	<u>59 458</u>	<u>53 782</u>
	<u>\$3 203 591</u>	<u>\$3 130 455</u>

9. DEFERRED REVENUES

Deferred revenues represents the contribution of the gouvernement du Québec pertaining to administrative expenditures which are allocated to exercise during which they are incurred.

10. COMMITMENTS

The Board is committed until October 2008, under contracts for professional services for maintenance of its computer system and other services falling due between 2008 and 2013.

The Board is also committed under a long-term lease for administrative offices expiring on March 2010. These lease includes a five-year renewal option.

Minimum future payments on these commitments are as follows:

2009	\$95 107
2010	39 223
2011	2 637
2012	1 680
2013	<u>1 120</u>
	<u>\$139 767</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2008

11. PENSION PLANS

Board staff members participate in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel (PPMP). These are multiemployer defined benefit plans and include guaranteed payments upon retirement and death.

As at January 1, 2008, the Board's contribution rate to RREGOP went from 7.06% to 8.19% of the contributory payroll and that of the PPMP went from 7.78% to 10.54%.

The Board's contributions charged to year-end statement amount to \$41 979 (2007: \$37 805). The Board's liability towards these government plans is restricted to its contributions as an employer.

12. FINANCIAL INSTRUMENTS

The Board is not exposed to interest-rate risks on its financial liabilities given that interest is paid out of a Gouvernement du Québec operating subsidy.

The fair value of short-term financial instruments equals their book value based on their short-term maturity date.

13. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Board is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the gouvernement du Québec or subject to either joint control or significant influence by the gouvernement du Québec. The Board did not carry out any business transactions with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

14. INSURANCE FUND

Complementary Agreement No. 15 amending Section 30 of the James Bay and Northern Quebec Agreement came into effect on July 1, 2002. An insurance fund managed by the Board was created to finance sick leave and leave related to disasters. The Fund is financed by equal contributions from the Gouvernement du Québec and program beneficiaries. The Insurance Fund's assets are separate from the assets of the Board, which is responsible for reporting on Fund activities.

The Insurance Fund's results, the accumulated surplus and financial position for the year ending June 30, 2008 is as follows:

Income and accumulated surplus	<u>2008</u>	<u>2007</u>
Revenue		
Gouvernement du Québec contribution	\$20 183	\$198 476
Beneficiaries' contribution	20 183	198 476
Interest	77 140	67 509
	<u>117 506</u>	<u>464 461</u>
Expenditure		
Sick leave and disaster benefits	280 022	299 095
Bank fees	90	90
	<u>280 112</u>	<u>299 185</u>
(Deficiency) / Excess of revenue over expenditure	(162 606)	165 276
Accumulated surplus, beginning of year	<u>581 087</u>	<u>415 811</u>
Accumulated surplus, end of year	<u>\$418 481</u>	<u>\$581 087</u>

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS

NOTES TO FINANCIAL STATEMENTS (cont'd)
June 30, 2008

14. INSURANCE FUND (cont'd)**Balance sheet****Current assets**

Cash	\$9 098	\$85 613
Temporary investments	2 036 941	1 813 044
Board account receivable	2 510	24 027
Gouvernement du Québec accounts receivable	2 510	24 027
	<u>\$2 051 059</u>	<u>\$1 946 711</u>

Liability

Sick leave payable	\$1 632 578	\$1 365 624
Accumulated surplus	<u>418 481</u>	<u>581 087</u>
	<u>\$2 051 059</u>	<u>\$1 946 711</u>

15. COMPARATIVE FIGURES

Certain prior year figures of 2007 have been reclassified to conform to the current year's presentation in 2008.

OFFICE DE LA SÉCURITÉ DU REVENU DES CHASSEURS ET PIÉGEURS CRIS**MANAGEMENT'S REPORT**

The financial statements of the Cree Hunters and Trappers Income Security Board were drawn-up by management, which is responsible for their preparation, presentation and the significant judgments and estimates included, therein. This responsibility involves the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in other sections of the annual report concurs with that shown in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are duly approved and properly recorded—when appropriate and in a manner suitable for preparing reliable financial statements.

The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The members of the Board supervise the way management carries out its responsibilities regarding financial information and approve the financial statements.

The Auditor General of Québec has audited the financial statements of the Board in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of this audit and his opinion. The Auditor General can, without limitations, meet with the members of the Board to discuss any aspect regarding the audit.

On behalf of the Cree Hunters and Trappers
Income Security Board,

Serge Larivière
Director-general

Régent Brind'Amour
Director of Administrative Services

Québec, October 22, 2008

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Cree Hunters and Trappers Income Security Board as at June 30, 2008 and the statement of income and accumulated surplus for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Auditor General of Québec,
Renaud Lachance, CA

Québec, October 22, 2008

OFFICE DES PROFESSIONS DU QUÉBEC
(R.S.Q., c. C-26)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Contributions from members of professional corporations	\$8 296 359	\$7 107 409
Interest	112 047	110 031
Worker Mobility Support Fund honoraria	<u>40 499</u>	<u>25 083</u>
	<u>8 448 905</u>	<u>7 242 523</u>
EXPENSES		
Administrative expenses		
Salaries and fringe benefits	3 106 045	3 012 159
Transportation and communications	215 224	157 182
Professional and administrative services	762 505	437 225
Rent and maintenance	322 565	303 977
Materials and supplies	74 401	66 360
Interest on advances from the Consolidated Revenue Fund		5 869
Amortization capital assets	<u>198 229</u>	<u>177 474</u>
	<u>4 678 969</u>	<u>4 160 246</u>
Other expenses		
Worker Mobility Support Fund management fees	40 499	25 083
Fees and reimbursements (Note 4)	<u>2 224 234</u>	<u>2 901 873</u>
	<u>2 264 733</u>	<u>2 926 956</u>
	<u>6 943 702</u>	<u>7 087 202</u>
EXCESS REVENUES OVER EXPENSES	1 505 203	155 321
OPENING CUMULATED DEFICIT	<u>(1 095 537)</u>	<u>(1 250 858)</u>
CLOSING CUMULATED EXCESS (DEFICIT)	<u><u>\$409 666</u></u>	<u><u>\$(1 095 537)</u></u>

The notes are an integral part of these financial statements.

OFFICE DES PROFESSIONS DU QUÉBECBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$293 942	\$137 106
Accounts receivable	568 147	542 845
Investments (Note 6)	6 176 125	
Accrued interest receivable	2 107	
Worker Mobility Support Fund subsidy receivable (Note 9)		5 000 000
	<u>7 040 321</u>	<u>5 679 951</u>
Capital assets (Note 5)	<u>308 259</u>	<u>434 616</u>
	<u><u>\$7 348 580</u></u>	<u><u>\$6 114 567</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$1 550 338	\$1 284 538
Provision for vacation time (Note 7)	258 924	300 054
Worker Mobility Support Fund (Note 9)	<u>4 598 046</u>	<u>4 974 917</u>
	6 407 308	6 559 509
Provision for sick leave (Note 7)	<u>531 606</u>	<u>650 595</u>
	6 938 914	7 210 104
CUMULATED EXCESS (DEFICIT)	<u>409 666</u>	<u>(1 095 537)</u>
	<u><u>\$7 348 580</u></u>	<u><u>\$6 114 567</u></u>

The notes are an integral part of these financial statements.

On behalf of the Office des professions du Québec,
M^{re} Jean-Paul Dutrisac, President
Christian Reny, Comptroller and Financial Advisor

OFFICE DES PROFESSIONS DU QUÉBEC**STATEMENT OF CASH FLOWS**
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
Excess of revenues over expenses	\$1 505 203	\$155 321
Item not affecting liquid assets:		
Amortization of capital assets	198 229	177 474
Change in non-cash items related to operations:		
Subsidy receivable	5 000 000	(5 000 000)
Accounts receivable	(25 302)	(343 853)
Accrued interest receivable	(2 107)	
Accounts payable and accrued liabilities	(99 205)	5 908 293
Net change in provision for :		
Sick leave and vacation time	<u>(160 119)</u>	<u>16 276</u>
Cash flows from operating activities	<u>6 416 699</u>	<u>913 511</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	<u>(83 738)</u>	<u>(156 305)</u>
Cash flows for investment activities	<u>(83 738)</u>	<u>(156 305)</u>
FINANCING ACTIVITIES		
Repayment of Consolidated Revenue Fund advance	<u> </u>	<u>(700 000)</u>
Cash flows for financing activities	<u> </u>	<u>(700 000)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	6 332 961	57 206
OPENING CASH AND CASH EQUIVALENTS	<u>137 106</u>	<u>79 900</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$6 470 067</u></u>	<u><u>\$137 106</u></u>

Cash and cash equivalents include cash on hand and investments. The use \$4 598 046 in investments is, however, restricted to paying Worker Mobility Support Fund subsidies.

OFFICE DES PROFESSIONS DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Office des professions du Québec (Office) was established by the *Professional Code* (R.S.Q., c. C-26) to ensure that professional corporations protect the public.

The Office reports to the Minister responsible for administering the legislation governing these professions designated by the Gouvernement du Québec. Its operations are financed out of the dues paid by professional corporations' members. These dues are collected by the professional corporations, which then remit them to the Office. The *Professional Code* stipulates that this contribution it shall be increased or decreased to reflect deficits or surpluses from previous fiscal years.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Office gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates are the service life of capital assets, the provision for sick leave and the provision for vacation time. Real results may differ from these estimates.

Revenue reporting

Revenue from professional corporation members' contributions and management fees are posted when the following conditions are fulfilled, if applicable:

- there is convincing evidence that an agreement exists
- the service was dispensed
- the amount can be determined
- recovery is reasonably certain.

Interest income is recorded based on the number of days funds were detained during the fiscal year.

Cash and cash equivalents

The Office's policy consists in presenting bank balances and investments that are easily convertible into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Capital assets

Capital assets are recorded at cost and are depreciated over their estimated service life using the straight-line method and the following rates:

	<u>Rates</u>
Data processing equipment	33 1/3%
Telephone equipment	20%
Furniture	20%
Leasehold improvements	20%
Computer systems development costs	20%

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Depreciation of capital assets**

When market conditions show that a capital asset no longer contributes to the Office's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The decline in capital assets' value is posted to expenses in the statement of operations.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Office lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, the Office has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the Office's results or cumulated surplus.

The accounting policies affected by this change in accounting framework are described below.

Capital assets

Computer systems development costs are now presented under "Capital assets" rather than "Intangible assets".

Depreciation of capital assets

The decline in the value of capital assets is based on their capacity to provide goods and services or on the value of the capital asset's future economic benefits rather than the evaluation of the unrealized future cash flows the capital asset will generate.

4. FEES AND REIMBURSEMENTS

In accordance with the Professional Code, the Office assumes the following expenses: honoraria or compensation of professional order disciplinary board chairs, allocations for presence and reimbursement of reasonable costs incurred by the directors appointed by the Office to the Bureaux des ordres professionnels to represent the public. Honoraria and compensation amounts are set by the Government.

These expenditures break down as:

	2009	2008
Chairs of disciplinary boards of professional corporations	\$1 831 027	\$2 545 719
Office-appointed directors	393 207	356 154
	<u>\$2 224 234</u>	<u>\$2 901 873</u>

OFFICE DES PROFESSIONS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**4. FEES AND REIMBURSEMENTS (cont'd)**

Fees, reimbursements, expenses and accrued expenses include \$811 559 for the fiscal year ended March 31, 2009 (2008: \$757 930) in work performed by chairs of disciplinary committees to date but not yet invoiced.

5. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Data processing equipment	\$182 996	\$(135 693)	\$47 303	\$105 638
Telephone equipment	49 084	(31 124)	17 960	
Furniture	160 395	(128 821)	31 574	23 795
Leasehold improvements	153 316	(107 021)	46 295	52 006
Computer systems development costs	548 238	(383 111)	165 127	253 177
	<u>\$1 094 029</u>	<u>\$(785 770)</u>	<u>\$308 259</u>	<u>\$434 616</u>

Acquisitions for the year totalled \$83 738 (2008: \$156 305).

6. INVESTMENTS

	2009	
	Cost	Fair value
Investment certificate, 1%, maturing April 9, 2009	\$1 050 000	\$1 050 633
Investment certificate, 1%, maturing April 15, 2009	5 126 125	5 128 232
	<u>\$6 176 125</u>	<u>\$6 178 865</u>

Bank investment certificates are held for a period of less than 90 days.

7. FUTURE FRINGE BENEFITS**Pension plans**

Office staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Office's pension plan contribution rates remained unchanged at 8.19% of the contributory payroll for the RREGOP, 10.54% for the PPMP and 7.25% for the CSSP.

The Office's contributions charged to the year-end statement totalled \$168 329 (2008: \$139 909). Its liability towards these Government plans is restricted to its employer contributions.

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**7. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave and vacation time**

During the fiscal year, the Office changed the method it uses to measure its obligations related to accumulated sick leave. Henceforth, these obligations will be measured using an actuarial method based on defined benefit breakdown. This change in accounting estimate increased the value of the obligation by \$97 630 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results (included under "Salaries and fringe benefits").

	Sick leave		Vacation time	
	2009	2008	2009	2008
Opening balance	\$650 595	\$672 031	\$300 054	\$262 342
Expenses for the year	42 558	147 160	251 096	262 300
Benefits paid during the year	(161 547)	(168 596)	(292 226)	(224 588)
Closing balance	<u>\$531 606</u>	<u>\$650 595</u>	<u>\$258 924</u>	<u>\$300 054</u>

Description

The Office has a sick leave accumulation program, which results in long-term obligations whose cost it bears in their entirety.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure payment.

Obligations under the sick leave accumulation program increase as Office employees render services to it. The value of these obligations is established using a method that breaks down the program's cost over the employee's working career.

Valuation and subsequent estimations

The sick leave accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

	RREGOP	PPMP, CSSP
Indexation rate	3.85%	3.85%
Discount rate	5.10%	3.27%
Average remaining service period of active employees	13 years	7 years

Provision for vacation time

No actuarial calculation for regarding the provision for vacation time was deemed necessary since the Office considers that vacation time accumulated will be taken in the next fiscal year.

8. ADVANCE FROM THE CONSOLIDATED REVENUE FUND

The Minister of Finance is authorized to advance amounts whose capital shall not exceed \$2 million to the Office des professions du Québec from the Consolidated Revenue Fund. These advances bear interest at the prime rate and are due no later than March 31, 2013. At March 31, 2009, no advance had been contracted.

OFFICE DES PROFESSIONS DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. WORKER MOBILITY SUPPORT FUND

Created under Order-in-Council 241-2008 of March 17, 2008, the Worker Mobility Support Fund (FAMMO) is designed to support the projects of orders and organizations governing access to regulated construction and non-construction trades to facilitate and accelerate skills recognition for people trained outside Québec seeking to practice a regulated occupation or trade in Québec. The Office manages the Fund until 2009-2010. The funds' initial funding comes out of a Gouvernement du Québec \$5 million subsidy. Interest generated by the Fund is reinvested in the Fund and management fees not exceeding 4% of the Fund's initial amount are paid to the Office.

Fund evolution:

	<u>2009</u>	<u>2008</u>
Opening Fund balance	\$4 974 917	\$5 000 000
Plus:		
Interest income generated by the Fund	120 165	
Minus:		
Subsidies paid	(456 537)	
Management fees incurred by the Office	<u>(40 499)</u>	<u>(25 083)</u>
Closing Fund Balance	<u><u>\$4 598 046</u></u>	<u><u>\$4 974 917</u></u>

10. RELATED PARTY TRANSACTIONS

In addition to the transactions with the Consolidated Revenue Fund disclosed in its financial statements and recorded at exchange value, the Office is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Office did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

OFFICE DES PROFESSIONS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Office des professions du Québec (Office) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Office recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Office's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

M^e Jean-Paul Dutrisac
President

Christian Rény
Comptroller and Financial Advisor

Québec, May 12, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Office des professions du Québec as at March 31, 2009, the statement of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Office management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., chapter V-5.01), I report that, in my opinion, given the changes in accounting policies resulting from the adoption of public-sector standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 12, 2009

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE
(R.S.Q., c. O-5.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Ministère des Relations internationales subsidy	\$2 000 000	\$2 000 000
Ministère de l'Emploi et de la Solidarité sociale subsidy ("Emploi-Québec")	325 000	323 241
Ministère de l'Éducation, du Loisir et du Sport subsidy ("MELS")	161 204	
Secrétariat à la Jeunesse subsidy – Awareness	69 713	40 361
Secrétariat à la Jeunesse subsidy – Mentoring	15 041	22 424
Interest on bank deposits	36 123	50 125
Other revenue	3 685	11 500
	<u>2 610 766</u>	<u>2 447 651</u>
EXPENSES (Note 9)		
Programs and development	1 461 768	1 288 344
Communications	32 022	27 836
Human resources	907 469	871 009
Operation	159 720	159 905
	<u>2 560 979</u>	<u>2 347 094</u>
EXCESS OF REVENUES OVER EXPENSES	49 787	100 557
OPENING CUMULATED SURPLUS	<u>425 391</u>	<u>324 834</u>
CLOSING CUMULATED SURPLUS	<u>\$475 178</u>	<u>\$425 391</u>

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$162 369	\$8 072
Redeemable term deposits (Note 11)	1 225 000	400 000
Accounts receivable (Note 4)	147 909	260 999
	<u>1 535 278</u>	<u>669 071</u>
Capital assets (Note 5)	<u>23 320</u>	<u>39 754</u>
	<u>\$1 558 598</u>	<u>\$708 825</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	\$260 520	\$253 721
Deferred subsidy – MELS (Note 8)	822 900	
Deferred subsidy – Secrétariat à la jeunesse		29 713
	<u>1 083 420</u>	<u>283 434</u>
CUMULATED SURPLUS	<u>475 178</u>	<u>425 391</u>
	<u>\$1 558 598</u>	<u>\$708 825</u>
COMMITMENTS (Note 10)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Alfred Pilon, President and Chief Executive Officer
 Catherine Gosselin, Chairman, Board of Directors

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSESTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$49 787	\$100 557
Items not affecting liquid assets		
Amortization of capital assets	<u>20 096</u>	<u>21 557</u>
	<u>69 883</u>	<u>122 114</u>
Change in non-cash items related to operations		
Accounts receivable	105 090	(108 709)
Accounts payable and accrued liabilities	6 799	52 347
Deferred subsidy	<u>801 187</u>	<u>21 713</u>
	<u>913 076</u>	<u>(34 649)</u>
Cash flows from operating activities	<u>982 959</u>	<u>87 465</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets and cash flows used for investment activities	<u>(3 662)</u>	<u>(8 242)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	979 297	79 223
OPENING CASH AND CASH EQUIVALENTS	<u>408 072</u>	<u>328 849</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 11)	<u>\$1 387 369</u>	<u>\$408 072</u>

Item not affecting cash flows related to operating activities

Deferred subsidy included in accounts receivable	\$8 000

The notes are an integral part of these financial statements.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Office Québec-Amériques pour la jeunesse (Office) was established under the *Act respecting the Office Québec-Amériques pour la jeunesse*, (R.S.Q., c. O-5.1) to develop relations between Québec youth and other American peoples, to increase individual and group exchanges between them and to promote the development of cooperative networks

Under the Québec *Taxation Act* and the Canadian *Income Tax Act*, the Office does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Office gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The Main element for which management has issued estimates and assumptions is the service life of capital assets. Real results may differ from these estimates.

Deferred subsidies

Subsidies for expenses related to projects that have not yet been carried out are posted to deferred subsidies and transferred to results the fiscal year in which the corresponding expenses are incurred.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method and the following rates:

Office furniture and equipment	20%
Leasehold improvements	10%
Computer equipment	33 1/3%

Amortization of capital assets

When the situation indicates that a capital asset no longer contributes to the Office's capacity to provide goods and services or if the value of the capital asset's future economic benefits is less than its book value, its cost is reduced to reflect this decline. Capital asset-related losses are posted to expenses in the statement of operations and cumulated surplus.

Program expenses

Program expenses are posted when authorized for the fiscal year and when beneficiaries have met the eligibility criteria, where applicable.

Cash and cash equivalents

It is the Office's policy to present bank balances, including bank overdrafts, whose balances fluctuate between overdrawn and available, and investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly as cash and cash equivalents.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Office lacks sufficient information to apply the accounting procedure for defined-benefit plans.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, to prepare its financial statements, the Office gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the Office's results or cumulated surplus.

4. ACCOUNTS RECEIVABLE

	2009	2008
Emploi-Québec		\$63 241
Secrétariat à la jeunesse – Awareness		8 000
Secrétariat à la jeunesse – Mentoring	\$15 041	22 424
Office franco-québécois pour la jeunesse ("OFQJ")	88 433	112 530
Office Québec-Wallonie Bruxelles pour la jeunesse ("OQWBJ")	13 646	9 913
Other	30 789	44 891
	<u>\$147 909</u>	<u>\$260 999</u>

5. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated amortization	Net	Net
Office furniture and equipment	\$78 752	\$78 752		\$351
Leasehold improvements	118 081	103 092	\$14 989	26 798
Computer equipment	95 108	86 777	8 331	12 605
	<u>\$291 941</u>	<u>\$268 621</u>	<u>\$23 320</u>	<u>\$39 754</u>

6. CREDIT LINE

The Office has a credit line of \$200 000, renewable annually on September 30. The amounts used bear interest daily at the prime rate plus 0.75%.

The amount was authorized, where applicable, based on the subsidies approved by the Gouvernement du Québec.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Suppliers	\$7 754	\$13 286
OFQJ	7 056	41 475
Société immobilière du Québec ("SIQ")	39 618	79 725
Salaries and fringe benefits	206 092	119 235
	<u>\$260 520</u>	<u>\$253 721</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

8. DEFERRED SUBSIDY

During the fiscal year, MELS awarded the Office a subsidy of \$999 296 to enable it to assume, in conjunction with the youth offices concerned, management of the Poursuite d'études collégiales et universitaires dans les Amériques, en Asie et en Communauté française de Belgique programs until December 31, 2009. An amount of \$161 204 was posted to the Office's fiscal year results and \$15 192 was redistributed to the OFQJ according to the geographic areas of the studies conducted. At March 31, 2009, \$822 900 was posted to deferred subsidies. This amount's breakdown between the Office, OFQJ and OQWBJ was not known on the date of the financial statements. Should the number of program participants be insufficient, the remaining balance of the subsidy will be repaid to MELS.

9. EXPENSES

	2009	2008
Programs:		
Regular projects	\$964 043	\$830 925
Participation allowances - Emploi-Québec	275 071	273 241
Special projects	152 729	100 537
	<u>1 391 843</u>	<u>1 204 703</u>
Development:		
Mission abroad	21 568	23 345
Cost of travail within Québec	34 641	32 430
Development in Mexico	7 814	19 081
Other costs	5 902	8 785
	<u>69 925</u>	<u>83 641</u>
	<u>1 461 768</u>	<u>1 288 344</u>
Communications:		
Promotional material	27 715	18 170
Advertising	2 027	6 518
Subscriptions and publications	2 280	3 148
	<u>32 022</u>	<u>27 836</u>
Human resources:		
Salaries and fringe benefits	907 469	871 009
Operating:		
Rent	72 669	70 080
Telecommunications	19 673	22 761
Operating costs	34 521	33 120
Mail and courier services	3 775	3 691
Insurance	7 381	7 568
Board of Directors expenses	1 605	1 128
Amortization of capital assets	20 096	21 557
	<u>159 720</u>	<u>159 905</u>
	<u>\$2 560 979</u>	<u>\$2 347 094</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

10. COMMITMENTS**Contributions payable**

At March 31, 2009, the Office agreed to pay contributions of \$378 675 (2008: \$231 700) for regular projects carried out in fiscal 2010.

Rental contracts

The Office is committed, under long-term leases ending in September 2010 to paying for administrative offices in Québec City and under long-term leases ending in February 2019 for administrative offices in Montréal. The Montréal office rental costs are re-invoiced to OFQJ.

Minimum future payments are:

	Québec City	Montréal
2010	\$73 400	\$232 900
2011	36 700	232 900
2012		232 900
2013		232 900
2014		232 900
Subsequent fiscal years		1 336 500
	<u>\$110 100</u>	<u>\$2 501 000</u>

Contributions receivable

In keeping with the 2007-2010 Memorandum of Agreement signed by Emploi-Québec and the Office, financial contributions receivable for projects completed in 2010 are \$325 000.

11. CASH AND CASH EQUIVALENTS

	2009	2008
Cash on hand	\$162 369	\$8 072
Term deposits receptacles, bearing interest at rate of 0.97% and 3.08% (4.37% in 2008), maturing in July, 2009 and March, 2010 (2008: June 2008)	1 225 000	400 000
	<u>\$1 387 369</u>	<u>\$408 072</u>

12. RELATED PARTY TRANSACTIONS

Under the sharing agreement with the OFQJ and OQWBJ, the Office re-invoices the following expenses:

	2009			2008
	OFQJ	OQWBJ	Total	Total
Salaries and fringe benefits	\$132 823	\$36 329	\$169 152	\$115 831
Promotion and travelling expenses	3 341	914	4 255	2 552
Operating expenses	10 326	2 825	13 151	2 475
	<u>\$146 490</u>	<u>\$40 068</u>	<u>\$186 558</u>	<u>\$120 858</u>

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. RELATED PARTY TRANSACTIONS (cont'd)

These amounts were used to reduce the corresponding expenses presented in the statement of results. These operations were carried out in the normal course of business and measured at exchange value, which corresponds to the consideration established and accepted by the related parties. Further, during the fiscal year, the Office paid fees totalling \$138 284 (2008: \$16 015) for these two organizations, but re-invoiced them in full to the two organizations.

During the fiscal year, the Office cashed a subsidy of 260 000 from the Ministère des Relations internationales. This subsidy was for repaying a portion of the OFDJ administrative office fit-up costs. Of this amount, the Office paid \$240 000 to the SIQ and \$20 000 to the OFQJ. Consequently, this transaction was not recorded in its results.

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Office is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Office did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. FUTURE FRINGE BENEFITS

Pension plans

Office staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP-PPUM), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Office's contributions charged to the year-end statement totalled \$34 493 (2008: \$27 634). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

The Office reimburses days not used at March 31 every year in keeping with its regulation on appointment conditions, payment standards and pay scales. The fiscal year's expenses totalled \$15 322 (2008: \$18 404).

14. COMPARATIVE FIGURES

Some 2008 figures were reclassified for consistency with the presentation adopted in 2009.

OFFICE QUÉBEC-AMÉRIQUES POUR LA JEUNESSE**MANAGEMENT'S REPORT**

The financial statements of the Office Québec-Amériques pour la jeunesse were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and for the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Office recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Office's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Alfred Pilon
President and Chief Executive Officer

Québec, May 15, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheets of the Office Québec-Amériques pour la jeunesse as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Office management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Office's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 15, 2009

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC
(R.S.Q., c. R-5)

STATEMENT OF PROGRAM COSTS AND FINANCING
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008
PROGRAM COSTS (Note 3)		
Medical services (Note 15)	4 286 051	3 810 522
Prescription drugs and pharmaceutical services (Notes 4 and 15)	3 002 840	2 864 694
Hospital services (Note 5)	178 875	167 021
Technical aids	134 726	129 192
Dental services (Note 15)	121 884	114 998
Home-care services	57 936	51 809
Optometry services (Note 15)	39 509	40 138
Other (Note 6)	14 603	13 041
	<u>7 836 424</u>	<u>7 191 415</u>
Amounts recovered from liable third parties and foreign nationals for hospital care	9 429	7 448
	<u>7 826 995</u>	<u>7 183 967</u>
Administrative expenses (Note 7)	<u>142 942</u>	<u>135 063</u>
	<u><u>7 969 937</u></u>	<u><u>7 319 030</u></u>
 FINANCING SOURCES		
Health Services Fund	4 406 362	3 952 185
Prescription Drug Insurance Fund	3 034 944	2 895 823
Gouvernement du Québec	370 362	337 472
Commission de la santé et de la sécurité du travail	115 287	87 821
Reciprocal agreements with other provinces (Note 5)	32 716	36 839
Other	10 266	8 890
	<u><u>7 969 937</u></u>	<u><u>7 319 030</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Contributions receivable		
Health Services Fund	174 281	86 875
Prescription Drug Insurance Fund	234 020	260 747
Fees to be recovered (Note 8)	240 939	193 188
Other receivables	<u>32 060</u>	<u>23 469</u>
	681 300	564 279
Capital assets (Note 9)	<u>121 015</u>	<u>98 383</u>
	<u><u>802 315</u></u>	<u><u>662 662</u></u>
LIABILITIES		
Current liabilities		
Outstanding bank papers	21 459	21 750
Services payable (Note 10)	669 299	545 021
Other accounts payable and accrued liabilities	37 780	40 972
Borrowing on note from Gouvernement du Québec		
Financing Fund (Note 11)	<u>48 997</u>	<u>26 202</u>
	777 535	633 945
Provision for sick leave and vacation time (Note 13)	<u>24 780</u>	<u>28 717</u>
	<u><u>802 315</u></u>	<u><u>662 662</u></u>
COMMITMENTS (Note 14)		
CONTINGENCIES (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Régie,
Marc Giroux, ASC
President and Chief Executive Officer

Suzanne Delisle, CA, ASC
Member of the Board of Directors and
Chairman, Auditing Committee

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION, PURPOSE AND FINANCING

A legal person under the Civil Code, the Régie de l'assurance maladie du Québec (Board) was established under the *Act respecting the Régie de l'assurance maladie du Québec* (R.S.Q., c. R-5) to administer the health insurance plan and any other program entrusted to it by law or by the Government.

The Board also administers the basic prescription drug insurance plan and parts of Ministère de la Santé et des Services sociaux programs, including:

- remuneration of resident physicians;
- payment of hospital services rendered outside Québec;
- tax exemption for home-care services;
- collection of amounts recoverable from liable third parties, residents of other provinces and foreign nationals for hospital care.

The Board also pays for the professional services of physicians working under legislation administered by the Commission de la santé et de la sécurité du travail, which then reimburses the Board.

The health insurance program is financed by the Health Services Fund.

The Prescription Drug Insurance Fund finances the cost of prescription drugs and pharmaceutical services provided to:

- persons aged 65 and over;
- last-resort financial assistance recipients;
- participants, other than those listed above, not covered by a group insurance plan or without fringe benefits.

Finally, the Gouvernement du Québec finances parts of programs entrusted to it by the Ministère de la Santé et des Services sociaux.

Under section 4 of its incorporating act, the Board is a mandatory of the State and, as such, does not pay Québec or Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates are services payable, service life of capital assets and the provision for sick leave and vacation time. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Board's cash flows during the year. The most relevant information is disclosed in the notes to the financial statements.

Since April 1, 2008, to prepare its financial statements, the Board gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Previously, the Board used the CICA Handbook (private sector). Changing to the Public Sector Accounting Handbook did not affect the Board's accounting policies or results. The presentation of the previous fiscal year's financial statements was modified to reflect the change in the accounting framework.

Capital assets

Capital assets are recorded at acquisition cost.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Capital assets (cont'd)**

The straight-line amortization method is used, taking into account the residual value of these capital assets, where applicable. Computer systems development includes the cost of labour, professional services and related computer and office automation equipment.

Capital assets' service life is:

Head office building	40 years
Leasehold improvements	5 years
Building renovations	10 years
Office furniture, equipment	5 years
Computer and office automation equipment	3 years
Computer systems development	5 years
Computer systems development – Québec health file	10 years
Software	3 years

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Board lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. PROGRAM COSTS

The cost of goods and services, by program, breaks down as:

	2009	2008
Health insurance plan	4 432 737	3 956 739
Public basic prescription drug insurance plan (Note 4)	3 000 017	2 861 981
Other	394 241	365 247
	<u>7 826 995</u>	<u>7 183 967</u>

4. PRESCRIPTION DRUGS AND PHARMACEUTICAL SERVICES

	2009	2008
Public prescription drug insurance plan		
Persons aged 65 and over	1 748 652	1 650 647
Last-resort financial assistance recipients	652 128	629 485
Participants	599 237	581 849
	<u>3 000 017</u>	<u>2 861 981</u>
Persons eligible for special programs	2 823	2 713
	<u>3 002 840</u>	<u>2 864 694</u>

5. HOSPITAL SERVICES

	2009	2008
Hospital services provided to Québec residents outside the province	146 159	130 182
Hospital services provided in Québec to residents of other provinces	32 716	36 839
	<u>178 875</u>	<u>167 021</u>

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

6. OTHER

	2009	2008
Research grants	13 942	12 610
Assistance to persons infected with the hepatitis C virus	661	431
	<u>14 603</u>	<u>13 041</u>

7. ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	85 603	86 955
Amortization of capital assets	15 486	14 044
Office space, equipment and furniture	13 130	11 756
Information, telephone and messenger services	7 558	7 550
Interactive communications network	3 086	3 102
Professional and other services	13 567	9 557
Materials and supplies	1 786	1 938
Interest and financial expenses	157	161
Capital assets' decline in value	2 569	
	<u>142 942</u>	<u>135 063</u>

Of total administrative expenses, \$34.9 M (2008: \$33.8 M) is assumed by the Prescription Drug Insurance Fund.

8. COSTS TO BE RECOVERED

	2009	2008
Gouvernement du Québec	150 757	139 554
Commission de la santé et de la sécurité du travail	81 418	43 562
Hospital services owed by other provinces	8 764	10 072
	<u>240 939</u>	<u>193 188</u>

9. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Land	1 000		1 000	1 000
Head office building	17 537	11 038	6 499	6 799
Building renovations	27 732	6 854	20 878	14 013
Leasehold improvements	426	135	291	300
Office furniture, equipment	1 945	1 410	535	713
Computer and office automation equipment	13 522	6 760	6 762	5 405
Computer systems development	48 534 ¹	20 697	27 837	30 210
Computer systems development – Québec health file	56 302	807	55 495	37 727
Software	4 011	2 293	1 718	2 216
	<u>171 009</u>	<u>49 994</u>	<u>121 015</u> ²	<u>98 383</u>

Expenditures incurred for the fiscal year's acquisitions totalled \$40.7 million (2008: \$46.3 million).

1 A decline in value of \$2.6 M was posted in fiscal 2008-2009.

2 Total capital assets include \$60.9 M (2008: \$45.1 M) in goods being developed to which no amortization was applied.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

10. SERVICES PAYABLE

Services payable comprise medical and pharmaceutical services rendered by health professionals, lump sum amounts attributable to the latter, and costs payable to different clienteles for technical aid or home-care programs.

The amount is essentially a cost estimate for payment requests being processed at March 31 and payment requests produced after March 31 but applicable to services received prior to this date.

11. BORROWING ON NOTE FROM GOUVERNEMENT DU QUÉBEC FINANCING FUND

	2009	2008
Borrowing on note, maximum \$131 M, fixed rate of 0.70%, maturing April 27, 2009	48 997	26 202
Cash flows		
Interest paid	944	335

12. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Board is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Board did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

13. FUTURE FRINGE BENEFITS**Pension plans**

Board employees and salaried health care professionals participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-employer defined benefit plans that include guaranteed payments on retirement and death.

The Board's contributions charged to the year-end statement total \$4.3 million (2008: \$3.8 million) for its employees and are included in administrative expenses. Contributions for salaried health care professionals total \$4.9 million (2008: \$4.3 million) and are included in the cost of programs under the items "medical services," "dental services" and "optometry services." The Board's liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave and vacation time

During the fiscal year, the Board changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation decreased the value of the obligation by \$3.6 M at March 31, 2009. The effect of this change was posted to results.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

13. FUTURE FRINGE BENEFITS (cont'd)

Provision for sick leave and vacation time (cont'd)

The long-term economic estimates and assumptions used to determine the obligations' actuarial value are:

– Inflation rate	2.75%
– Wage growth net inflation	0.50%
– Discount rate	
Average weighted cost of borrowing rate	5.02%

	2009	2008
Opening balance	28 717	31 021
Net decrease due to employee arrivals and departures	(994)	(2 295)
Expenses	5 430	7 906
Utilization	(8 373)	(7 915)
Closing balance	<u>24 780</u>	<u>28 717</u>

14. COMMITMENTS

At March 31, 2009, the minimum contractual commitments for the acquisition of goods and services under procurement contracts and office space rental are:

2010	41 170
2011	19 852
2012	14 407
2013	7 026
2014 and more	<u>9 095</u>
	<u>91 550</u>

15. CONTINGENCIES

Medical, dental and optometry services and prescription drugs and pharmaceutical services

Agreements with the Fédération des médecins omnipraticiens du Québec, Fédération des médecins spécialistes du Québec and Association des spécialistes en chirurgie buccale and maxillo-faciale du Québec generally provide for an overall annual budget to be paid to members for their services. The agreements specify that should this budget not be used, the amounts made available will be allocated as decided by the parties, according to the terms and conditions they determine. Should the budget be exceeded, the amounts must be repaid in the subsequent period.

For agreements with federations representing general practitioners and specialized physicians, and association of oral and maxillofacial surgery specialists, the final compilation of real costs vs. provisions for the period April 1, 2008 to March 31, 2009, can be completed only in fall 2009. Consequently, the Board can not assess whether it will be under, on or over budget.

RÉGIE DE L'ASSURANCE MALADIE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Régie de l'assurance maladie du Québec (Board) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information presented contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis, and that they accurately represent the Board's financial position and operations.

The Board of Directors examines and approves the financial statements and oversees the manner in which management performs its financial reporting duties. It is assisted by the auditing committee.

The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Board's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Marc Giroux, ASC
President and Chief Executive Officer

Daniel Cloutier, CA
Director, Budget and
Financial Resources

Québec, May 15, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie de l'assurance maladie du Québec as at March 31, 2009 and the statement of program costs and financing sources for the year then ended. These financial statements are the responsibility of Board management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Board's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 15, 2009

RÉGIE DE L'ÉNERGIE
(R.S.Q., c. R-6.01)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Royalties - salaries and operations (Note 8)	\$10 465 536	\$9 209 834
Transfer of deferred contribution – capital assets (Note 7)	189 869	153 159
Interest income	27 286	68 857
Fees and other	<u>8 709</u>	<u>13 513</u>
	<u>10 691 400</u>	<u>9 445 363</u>
EXPENSES		
Salaries and fringe benefits	7 534 243	7 270 929
Professional service	456 375	202 796
Rent to Société immobilière du Québec	842 329	1 273 954
Other operating expenses	703 944	875 097
Amortization of capital assets	198 733	164 706
Amortization of capital assets acquired under capital lease contracts	72 121	72 121
Reimbursement of expenses – hearing	<u>60 225</u>	<u></u>
	<u>9 867 970</u>	<u>9 859 603</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	823 430	(414 240)
OPENING CUMULATED SURPLUS	<u>297 126</u>	<u>711 366</u>
CLOSING CUMULATED SURPLUS	<u><u>\$1 120 556</u></u>	<u><u>\$297 126</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIEBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$1 061 449	\$1 893 915
Accounts receivable (Note 8)	2 202 231	5 430
Prepaid expenses	<u>84 974</u>	<u>54 349</u>
	3 348 654	1 953 694
Capital assets (Note 4)	<u>1 031 045</u>	<u>975 852</u>
	<u><u>\$4 379 699</u></u>	<u><u>\$2 929 546</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 5)	\$1 943 589	\$1 570 558
Long-term provision for sick leave (Note 6)	317 664	290 739
Deferred contribution – capital assets (Note 7)	<u>997 890</u>	<u>771 123</u>
	3 259 143	2 632 420
CUMULATED SURPLUS	<u>1 120 556</u>	<u>297 126</u>
	<u><u>\$4 379 699</u></u>	<u><u>\$2 929 546</u></u>

The notes are an integral part of these financial statements.

On behalf of the Régie,
Jean-Paul Théorêt, President

RÉGIE DE L'ÉNERGIESTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Receipts – royalties – salaries and operations	\$8 286 800	\$9 283 322
Receipts – royalties from capital assets	400 500	423 000
Receipts – royalties and other revenue	1 419	8 602
Disbursements – salaries and fringe benefits	(6 955 151)	(7 540 832)
Disbursements – operations	(2 272 634)	(2 265 444)
Interest received	32 647	71 672
	<u>(506 419)</u>	<u>(19 680)</u>
Cash flows linked to operating activities		
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(327 911)	(572 287)
Sale of capital assets	1 864	5 560
	<u>(326 047)</u>	<u>(566 727)</u>
Cash flows used for investment activities		
DECREASE IN CASH	(832 466)	(586 407)
OPENING CASH	<u>1 893 915</u>	<u>2 480 322</u>
CLOSING CASH	<u><u>\$1 061 449</u></u>	<u><u>\$1 893 915</u></u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE

NOTES TO FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Régie de l'énergie (Régie) is a quasi-judicial regulatory board established by the *Act respecting the Régie de l'énergie* (R.S.Q., c. R-6.01) and entrusted with decision-making, advisory, examination, superintending and investigative powers. To varying degrees, its authority and responsibilities cover all energy markets in Québec, i.e. electricity, natural gas, petroleum products and steam, and include activities related to supply, transport, distribution, storage, energy efficiency activities, new energies and financing of the Agence de l'efficacité énergétique's Green Fund.

The Régie must reconcile the public interest, consumer protection and fair treatment of electricity distributors and distributors. It fosters meeting energy needs from a perspective of sustainable development and individual and collective equity.

Under the Canadian *Income Tax Act* and the Québec *Taxation Act*, the Régie does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Régie gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the provision for salaries and fringe benefits. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and depreciated using the straight-line method and the following estimated service lives:

▪ Computer system and data processing equipment	3 to 10 years
▪ Furniture and equipment	5 years
▪ Leasehold improvements acquired under the terms of contract of hiring-acquisition	12 to 15 years
▪ Leasehold improvements – additions	5 to 10 years

When market conditions show that a capital asset no longer contributes to the Régie's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The decline in capital asset values are posted to the fiscal year's results. No recovery is posted.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees with the right to return to the public service are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Provision for vacation time

No actuarial calculation for regarding the provision for vacation time was deemed necessary since the Régie considers that vacation time accumulated will be taken in the next fiscal year.

Contribution reporting

Contributions for budgeted capital asset acquisitions are deferred and posted to revenue over the same term as the depreciation of the capital assets they finance. Deferred contributions corresponding to cancelled capital asset acquisitions are posted to revenue when they are cancelled by the Régie.

RÉGIE DE L'ÉNERGIENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**2. ACCOUNTING POLICIES (cont'd)****Contribution reporting (cont'd)**

Contributions for budgeted operating expenses and salaries approved by the Government are posted to revenue the year for which they are approved.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGES IN ACCOUNTING POLICIES

Since April 1, 2008, the Régie has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook to prepare its financial statements. Previously, it used the CICA Handbook (private sector). This change did not affect the Régie's results, cumulated surplus or comparative financial statements.

The only accounting policy affected by this change in accounting framework deals with financial instruments and is described below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Review of accounting estimate

During the fiscal year, the Régie changed the method used to measure its obligations related to accumulated sick leave. Henceforth, these obligations will be measured using an actuarial method based on defined-benefit breakdown. This change in accounting estimate increased the value of the obligation by \$23 442 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results.

4. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Computer system and data processing equipment	\$894 481	\$527 024	\$367 457
Furniture and equipment	460 406	351 219	109 187
Leasehold improvements – additions	568 495	232 752	335 743
	1 923 382	1 110 995	812 387
Leasehold improvements acquired under the terms of contract of hiring-acquisition	1 029 352	810 694	218 658
	<u>\$2 952 734</u>	<u>\$1 921 689</u>	<u>\$1 031 045</u>
			<u>\$975 852</u>

RÉGIE DE L'ÉNERGIENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2009	2008
Accounts payable and accrued liabilities	\$206 249	\$385 385
Salaries and fringe benefits	1 150 201	632 681
Provision for vacation time	587 139	552 492
	<u>\$1 943 589</u>	<u>\$1 570 558</u>

6. FUTURE FRINGE BENEFITS**Provision for sick leave**

	2009	2008
Opening balance	\$290 739	\$264 341
Expenses	196 303	186 661
Benefits paid	(169 378)	(160 263)
Closing balance	<u>\$317 664</u>	<u>\$290 739</u>

The Régie has a sick leave accumulation program for employees who have the right to return to the public service, which results in long-term obligations whose cost it bears in their entirety.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure.

Currently, this program is not capitalized to ensure payment.

Obligations under the sick leave accumulation program increase as Office employees render services to it. The value of these obligations is established using a method that breaks down the program's cost over the employee's working career.

Valuation and subsequent estimations

The sick leave accumulation program was actualized using the following long-term estimates and economic assumptions as at March 31, 2009:

Indexation rate	3.00%
Discount rate (interest rate on Québec bonds maturing within 8 years)	4.08%
Average remaining service period of active employees	8 years

Pension plans

Régie comptrollers and staff participate in the Retirement Plan for Senior Officials (RPSO), Government and Public Employees Retirement Plan (RREGOP) or Pension Plan for Management Personnel (PPMP), which are defined-benefit plans that include guaranteed payments on retirement and death. At January 1, 2009, the Régie's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPMP and RPSO à 10.54%.

The Régie's contributions charged to year-end expenses, under the entry "Salaries and fringe benefits" totalled \$400 062 (2008: \$349 823). Its liability towards this Government plan is restricted to its employer contributions.

RÉGIE DE L'ÉNERGIENOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**7. DEFERRED CONTRIBUTION – CAPITAL ASSETS**

The item "Deferred contribution – capital assets" represents contributions received in the form of royalties to finance the capital asset acquisitions included in the budget estimates approved by the Government. Discrepancies in the balance of these contributions for the fiscal year are:

	2009	2008
Opening balance	\$771 123	\$502 024
Royalties – capital assets	418 500	423 000
	<u>1 189 623</u>	<u>925 024</u>
Amortization of deferred contribution for the year	(189 869)	(153 159)
Adjustment – sale of capital assets	(1 864)	(742)
	<u>(191 733)</u>	<u>(153 901)</u>
Closing balance	<u>\$997 890</u>	<u>\$771 123</u>

Capital assets acquired under capital lease contracts are not included in capital asset acquisitions and, therefore, are not included in the item "Deferred contribution – capital assets".

8. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Régie collected duties from Hydro-Québec Distribution in its distribution activities in the amount of \$3 015 018 (2008: \$3 069 970) and its transmission activities in the amount of \$4 760 777 (2008: \$3 178 116), \$1 847 504 of which was included in accounts receivable (2008: none). The Régie is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Régie did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION

March 31, 2009

BREAKDOWN

The Régie's revenues for the fiscal year ended March 31, 2009 are composed primarily of duties from electric power carriers, electric power distributors, including Hydro-Québec in its distribution activities, natural gas distributors and petroleum products distributors of over one hundred million litres, in keeping with the *Regulation respecting the annual duty payable to the Régie de l'énergie* (O.C. 736-2004, ref. s.112 of the Act). As stipulated in this Regulation, by energy form, the audited cumulated surplus (deficit) at March 31, 2009 will be taken into consideration in calculating the applicable rates and amounts of the duty payable by the distributors in question for 2009-2010, thereby reducing (or increasing) the duties payable to the Régie for this same fiscal year.

The Régie's budget estimates, tabled before the Government on January 23, 2008 for fiscal 2008-2009 (January 31, 2007 for 2007-2008) in keeping with Section 106 of the Act and related Order-in-Council (No. 832-2004) include forecasts for expenses associated with the new energy form "fuels and combustibles" contemplated by the Act and were approved by Order-in-Council No. 945-2008 of October 1, 2008 (549-2007 of June 27, 2007 for 2007-2008).

The Régie's expenses presented in the sectorial information under the new energy form "fuels and combustibles" as of 2007-2008 concerning the Régie's ancillary activities related to the provisions of the *Act respecting the Régie de l'énergie* mentioned in Chapter VI.2 (overall energy efficiency and new technologies plan) and Chapter VI.3 (financing greenhouse gas emission reduction and climate change adaptation measures), the *Regulation respecting the annual share payable to the Agence de l'efficacité énergétique* and the *Regulation respecting the annual duty payable to the Green Fund*. The amounts of the annual share and duty to the Green Fund are payable by the distributors contemplated by the Act.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2009

BREAKDOWN (cont'd)

	2009					
	Electricity distri- bution	Electricity trans- mission	Natural gas	Petroleum products	Fuel and combus- tibles	Total
REVENUES						
Royalties –						
Salaries and operations	\$2 925 098	\$4 625 777	\$2 585 410	\$329 251		\$10 465 536
Transfer of deferred contribution – capital assets	77 526	61 011	38 077	13 255		189 869
Interest income	11 979	9 425	5 882			27 286
Fees and other	6 839	915	384	571		8 709
	<u>3 021 442</u>	<u>4 697 128</u>	<u>2 629 753</u>	<u>343 077</u>		<u>10 691 400</u>
EXPENSES						
Salaries and fringe benefits	3 014 287	2 196 534	1 442 161	499 216	\$382 045	7 534 243
Professional services	180 597	175 735	43 227	41 149	15 667	456 375
Rent to Société immobilière du Québec	328 593	258 595	161 390	56 183	37 568	842 329
Other operating expenses	263 371	218 105	131 934	53 856	36 678	703 944
Amortization of capital assets	77 526	61 011	38 077	13 255	8 864	198 733
Amortization of capital assets held under capital lease contracts	28 134	22 141	13 818	4 810	3 218	72 121
Repayment hearing costs				60 225		60 225
	<u>3 892 508</u>	<u>2 932 121</u>	<u>1 830 607</u>	<u>728 694</u>	<u>484 040</u>	<u>9 867 970</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(871 066)	1 765 007	799 146	(385 617)	(484 040)	823 430
OPENING CUMULATED SURPLUS (DEFICIT)	<u>861 402</u>	<u>210 223</u>	<u>(205 210)</u>	<u>120 849</u>	<u>(690 138)</u>	<u>297 126</u>
CLOSING CUMULATED SURPLUS (DEFICIT)	<u>\$(9 664)</u>	<u>\$1 975 230</u>	<u>\$593 936</u>	<u>\$(264 768)</u>	<u>\$(1 174 178)</u>	<u>\$1 120 556</u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE

ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2009

BREAKDOWN (cont'd)

	2008					
	Electricity distri- bution	Electricity trans- mission	Natural gas	Petroleum products	Fuel and combus- tibles	Total
REVENUES						
Royalties						
Salaries and operations	\$2 944 412	\$3 056 616	\$2 752 494	\$456 312		\$9 209 834
Transfer of deferred contribution – capital assets	61 880	48 835	35 428	7 016		153 159
Interest income	27 818	21 958	15 927	3 154		68 857
Fees and other	8 250	2 618	1 913	732		13 513
	<u>3 042 360</u>	<u>3 130 027</u>	<u>2 805 762</u>	<u>467 214</u>		<u>9 445 363</u>
EXPENSES						
Salaries and fringe benefits	2 734 871	2 146 420	1 568 179	310 340	\$511 119	7 270 929
Professional services	122 473	48 409	24 306	2 765	4 843	202 796
Rent to Société immobilière du Québec	478 625	377 727	274 028	54 270	89 304	1 273 954
Other operating expenses	334 801	239 013	191 424	41 590	68 269	875 097
Amortization of capital assets	61 880	48 835	35 428	7 016	11 547	164 706
Amortization of capital assets held under capital lease contracts	27 096	21 384	15 513	3 072	5 056	72 121
	<u>3 759 746</u>	<u>2 881 788</u>	<u>2 108 878</u>	<u>419 053</u>	<u>690 138</u>	<u>9 859 603</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(717 386)	248 239	696 884	48 161	(690 138)	(414 240)
OPENING CUMULATED SURPLUS (DEFICIT)	<u>1 578 788</u>	<u>(38 016)</u>	<u>(902 094)</u>	<u>72 688</u>		<u>711 366</u>
CLOSING CUMULATED SURPLUS (DEFICIT)	<u>\$861 402</u>	<u>\$210 223</u>	<u>\$(205 210)</u>	<u>\$120 849</u>	<u>\$(690 138)</u>	<u>\$297 126</u>

The notes are an integral part of these financial statements.

RÉGIE DE L'ÉNERGIE**MANAGEMENT'S REPORT**

The financial statements of the Régie de l'énergie (Régie) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Régie's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with management to discuss any matter related to the audit.

Jean-Paul Théorêt
President

Montréal, May 25, 2009

RÉGIE DE L'ÉNERGIE

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie de l'énergie (Régie) as at March 31, 2009 and the statements of operations and cumulated surplus, cash flows and additional information for the year then ended. These financial statements are the responsibility of Régie management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements and the additional information are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement and additional information presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2009 and the results of its operations and cash flow for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01) I report that, in my opinion, given the changes in accounting policies resulting from the adoption of public-sector standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 25, 2009

RÉGIE DES INSTALLATIONS OLYMPIQUES
(R.S.Q., c. R-7)

STATEMENT OF OPERATIONS
for the year ended October 31, 2008
(in thousands of dollars)

	2008	2007
REVENUES		
Gouvernement du Québec subsidy (Note 7)	19 764	19 936
Deferred subsidy transfer (Note 7)	3 067	2 498
Sports and tourist facilities and special events		
Admission	4 658	4 581
Rent	1 191	1 648
Advertising	385	432
Parking	2 672	2 720
Souvenirs	695	642
Concession fees	660	1 766
Rental of commercial and office spaces	1 653	1 613
Recovery of cost of energy supplied to third parties	3 893	3 963
Work and services billed to third parties	859	2 265
Other	590	305
	<u>40 087</u>	<u>42 369</u>
EXPENSES		
Salaries and fringe benefits	14 543	15 047
Maintenance, security, etc.	6 543	5 863
Materials and equipment rental	1 922	1 740
Cost of goods sold	355	328
Energy		
Supplied to third parties	3 331	3 220
Other	5 684	5 269
Taxes and insurance	290	1 365
Professional fees	1 975	1 884
Rights, commissions and fees	354	364
Financial expenses		
Interest on short-term debt	79	173
Interest on long-term debt		54
Stationery, printing, telecommunications	312	309
Advertising	818	818
Amortization of capital assets	5 384	4 692
Loss for devaluation of asset-backed commercial papers	800	1 600
Other charges	389	542
	<u>42 779</u>	<u>43 268</u>
DEFICIENCY OF REVENUES OVER EXPENSES		
BEFORE OTHER ITEM	<u>(2 692)</u>	<u>(899)</u>
Other items		
Payment of complaints following the incident of January 18, 1999 (Note 3C)		21 000
Costs incurred as a result of the January 18, 1999 incident		<u>(423)</u>
		<u>20 577</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	<u>(2 692)</u>	<u>19 678</u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

STATEMENT OF ACCUMULATED SURPLUS
for the year ended October 31, 2008
(in thousands of dollars)

	2008		
	Sports Centre locker rooms and scoreboard	New product and market development	Project – new roof
OPENING SURPLUS (1)			824
Transfer to operating surpluses	2 925		1 275
Investment in capital assets	(195)		
Transfer to operating surpluses			(1 388)
(Deficiency) excess of revenues over expenses			
Balance available for investment	2 730		701
Opening surplus –Capital asset investments		76	
Transfer of reserved balance	195		
Transfer to operating surpluses	(9)	(38)	
Unamortized balance	186	38	
CLOSING SURPLUS	2 916	38	701

The notes are an integral part of the financial statements.

	2008	2007
(1) Opening surplus - Operations		
Operating Fund	12 787	7 799
Construction Fund*	13 000	
	25 787	7 799

* Construction Fund operating surpluses were transferred to the Operating Fund after the special Olympic fund was closed.

2008					2007
Appropriated					(Note 3C)
Pool – synchronized swimming	Signs and mosaics	Total	Operations	Total	Total
	334	1 158	25 787	26 945	7 799
	251	4 451	(4 451)		
		(195)	195		(570)
	(517)	(1 915)	1 915		
			(2 692)	(2 692)	19 678
	68	3 499	20 754	24 253	26 907
570		646		646	114
(60)		195	(195)		570
		(107)	107		
510		734	(88)	646	684
510	68	4 233	20 666	24 899	27 591

RÉGIE DES INSTALLATIONS OLYMPIQUES

OPERATING FUND

BALANCE SHEET
as at October 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	25 970	19 481
Accounts receivable	1 522	1 669
Inventory	1 078	1 061
Prepaid expenses	71	263
	<u>28 641</u>	<u>22 474</u>
Asset-backed commercial papers (Note 5)	5 608	6 408
Capital assets (Note 6)	<u>55 925</u>	<u>53 489</u>
	<u>90 174</u>	<u>82 371</u>
LIABILITIES		
Current assets		
Accounts payable and accrued liabilities	13 595	10 009
Deferred grants (Note 7)	<u>51 680</u>	<u>44 771</u>
	<u>65 275</u>	54 780
CUMULATED SURPLUS		
Operating surplus	4 233	1 804
Appropriated surplus (Note 3c)	<u>20 666</u>	<u>25 787</u>
	<u>24 899</u>	<u>27 591</u>
	<u>90 174</u>	<u>82 371</u>
SUBSEQUENT EVENT (Note 5)		
CONTINGENCIES (Note 12)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Maya Raic, Director
Gaëtan Laflamme, Director

RÉGIE DES INSTALLATIONS OLYMPIQUES

STATEMENT OF CASH FLOWS
for the year ended October 31, 2008
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
(Deficiency) excess of revenues over expenses	(2 692)	19 678
Non-cash items		
Gain on sale of capital assets		(22)
Amortization of capital assets	5 384	4 692
Amortization of deferred subsidies	(3 067)	(2 498)
Loss for devaluation of asset-backed commercial papers	800	1 600
Changes in other assets and liabilities (Note 9)	<u>13 817</u>	<u>14 204</u>
Net cash generated	<u>14 242</u>	<u>37 654</u>
INVESTMENT ACTIVITIES		
Acquisition of asset-backed commercial papers		(8 008)
Capital assets	(7 753)	(8 992)
Sale of capital assets		<u>22</u>
Net cash generated (used)	<u>(7 753)</u>	<u>(16 978)</u>
FINANCING ACTIVITIES		
Repayment of borrowing		<u>(5 750)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6 489	14 926
OPENING CASH AND CASH EQUIVALENTS	<u>19 481</u>	<u>4 555</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>25 970</u></u>	<u><u>19 481</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS

as at October 31, 2008

(in thousands of dollars)

1. GOVERNING STATUTES AND NATURE OF OPERATIONS

The Régie des installations olympiques (Board) is a mandatary of the Gouvernement du Québec, incorporated under the *Act respecting the Régie des installations olympiques* adopted by the Gouvernement du Québec.

The Board owns movable and immovable facilities provided for the Games of the 21st Olympiad and was mandated to build, lay out and operate them.

The Montréal Olympic Park is one of Canada's largest multipurpose, recreational and tourist complexes with its Olympic Stadium, Montréal Tower and Sports Centre.

The Board's activities fall into three main areas: space rental for events and office rental, tourism activities and public and elite sports at the Sports Centre.

2. ACCOUNTING POLICIES

Accounting estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Subsidy reporting

Appropriated subsidies are reported as revenues for the fiscal year in which the related expenses are incurred. The operating subsidy is reported as revenue in the fiscal year for which it was awarded.

Unappropriated subsidies are reported as revenue when they are received or receivable if the amount receivable can be reasonably estimated and its encashment is reasonably certain.

The capital asset subsidy represents the Government's contribution to funding amortizable capital assets and corresponds to their amortization.

Revenue reporting

Revenues are reported when the goods are delivered and /or the services rendered.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Board lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Income tax

Since the Board is a mandatary of the Gouvernement du Québec, it does not pay income tax.

Tax

The Board pays water and service taxes but not the property taxes levied by the City of Montréal.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2008
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Cash and cash equivalents**

It is the Board's policy to classify, under cash and cash equivalents, bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly and whose initial maturity date falls within three months of their acquisition date.

Financial instruments**Initial and subsequent evaluation and classification**

Financial instruments are evaluated at fair value when they are initially posted.

Their evaluation in subsequent periods and reporting of change in fair value depend on the category in which they are classified.

The Board's financial instrument classification is as follows:

- Cash and cash equivalents and asset-backed commercial papers are classified under "Assets held for transaction purposes". They are assessed at fair value and the gains or losses resulting from re-evaluation at the end of each period are posted to results. Interest income is included under "Other revenues".
- Accounts receivable are classified under "Loans and accounts receivable". They are initially evaluated at fair value. Subsequent evaluations are reported at cost after amortization using the effective interest rate method. For the Board, this evaluation generally corresponds to cost.
- Accounts payable and accrued liabilities are classified under "Other financial liabilities" and initially evaluated at fair value. Subsequent evaluations are reported at cost after amortization using the effective interest rate method. For the Board, this evaluation generally corresponds to cost.

Fair value

Fair value is the amount of the consideration on which competent parties acting freely under fully competitive conditions agree on. It is determined using the main stock market prices and measurement methods such as actualization of future cash flows at current interest rates.

Comprehensive income

The Board did not classify any financial instrument as a financial asset available for sale. Consequently, the comprehensive income does not differ from the deficiency of revenues over expenses.

Inventory evaluation

Inventory is evaluated at cost or net realization value, whichever is lower. Cost is determined using the average cost method.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at October 31, 2008

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Capital asset amortization**

Capital assets acquired for operating purposes are amortized over their estimated service life in accordance with the straight-line method and the following annual rates:

Olympic facility	Impossible to identify (Note 3D)
Equipment	10%, 20% and 33.33%
Structure and specific improvements	5%, 6.67%, 10% and 20%
Leasehold improvements	Term of the Board tenant's lease for spaces
Automotive equipment	6.67%, 15%, 20% and 26.67%

Amortization of intangible assets

Intangible assets constituting software are amortized using the straight-line method and the annual rate of 33.3%.

Olympic facilities

Bill 34 was assented to on December 4, 2007. It repeals the *Act to establish a special olympic fund* (FSO), thereby stopping payment of a portion of the tobacco tax to the FSO. Bill 34 also amended the *Act respecting the Régie des installations olympiques* to allow retrocession of the Olympic facilities to the City of Montréal to be deferred to a later date to be determined by the Government.

Excluding the land on which the Olympic facilities are erected, the cost includes construction, administration and financing costs and all long-term debt issuing fees since the project's inception. The cost of the equipment and tools used in construction is also part of the facilities construction cost.

Facilities used by the Board	
Olympic Park	1 205 514
Capitalized interest on long-term debt	16 160
	<u>1 221 674</u>
Facilities disposed of	
Vélodrome (a)	82 804
Biodôme	50 467
	<u>133 271</u>
Olympic Village	<u>122 520</u>
	<u><u>1 477 465</u></u>

(a) In 1994, as per an agreement with the City of Montréal, the Board transferred ownership of the Biodôme to the City.

The Olympic Village was sold on April 14, 1998 to a private enterprise by call for tender.

The facilities transferred were removed and are shown here for information purposes only.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at October 31, 2008

(in thousands of dollars)

3. CHANGES IN ACCOUNTING POLICIES

A) *Adoption of new accounting standards*

Section 3862, “Financial Instruments – Disclosures,” and Section 3863, “Financial Instruments – Presentation,” replace Section 3861, “Financial Instruments – Disclosure and Presentation,” modifying and increasing requirements for information to be disclosed. Sections 3862 and 3863 accord greater importance to the information to be disclosed to enable those using the financial statements to evaluate the nature and scope of the risks resulting from the financial instruments to which the Board is exposed and how it manages these risks.

Section 1535, “Capital disclosures,” defines the standards governing information to disclose about the entity’s capital and how it is managed.

B) *Future changes in accounting policies*

In the coming fiscal year, the Board will apply the Canadian Institute of Chartered Accounts’ new recommendations for Section 3031, “Inventories”, and Section 3064, “Goodwill and Intangible Assets.” Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. This section applies to fiscal years opening on or after January 1, 2008.

Section 3064, “Goodwill and Intangible Assets,” which replaced Section 3062, “Goodwill and Intangibles,” and Section 3450, “Research and Development, establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008.

Management deems that application of the new standards discussed in points A and B will have no significant impact on the financial statements.

C) *Operating Fund and Construction Fund*

On October 31, 2007 and previously, the Board’s financial statements presented the Operating Fund from the Construction Fund:

- The Operating Fund was used to post operating revenues, operating expenses and the cost of the capital assets acquired for the Park’s, facilities to operate.
- The Construction Fund comprised the cost of building the Olympic facilities, total contributions from the special Olympic fund (FSO) and the long-term debt.

On November 14, 2006, the long-term debt was entirely repaid. Then, on December 4, 2007, the special Olympic Fund was closed, putting an end to payment of a portion of the tobacco tax into this fund.

The Construction Fund’s remaining balance was transferred to the Operating Fund this fiscal year. Furthermore, certain financial statement items for 2007 were restated to indicate the total of the amounts presented for the different funds in the financial statements. The main impacts on the 2007 financial statements are a respective increase of \$13 million in excess revenues over expenses and the cumulated surplus. Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

D) *Olympic facilities*

A number of components of the Olympic facilities are currently still being used and should have a positive net book value. However, given the fact that it is impracticable for the Board to identify the unamortized costs associated with the different components used, management deems it reasonable to assign zero value to these costs.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at October 31, 2008

(in thousands of dollars)

4. CASH AND CASH EQUIVALENTS

At October 31, 2008, cash and cash equivalents included \$24 834 M (October 31, 2007: \$16 852 M) comprising \$23 334 M in bank acceptances (2007: \$16 852 M) and \$1.5 M in a deposit certificate bearing interest at 2.30% to 3.14% (October 31, 2007: 4.57% to 4.65%) maturing on different dates up to November 2008.

5. ASSET-BACKED COMMERCIAL PAPERS

At October 31, 2008, the Board held \$8 008 243 in non-bank asset-backed commercial papers (ABCP) (before recognition of loss in value), \$3 000 000 of which were invested in Whitehall Trust (Series A), \$2 000 000 in Silverstone Trust (Series A), and \$3 008 243 in Planet Trust (Series A). These investments matured respectively on September 5, 2008, September 4, 2008 and October 15, 2008 but no payment was made. When the Board acquired these investments, non-bank ABCPS were ranked R-1 (high) by DBRS Limited (DBRS), the highest credit ranking for commercial papers.

Due to the liquidity problems that affected the market, they were not liquidated on maturity. This is why the Board classified its ABCPs under long-term investments after having initially classified them under cash and cash equivalents.

DBRS placed a certain number of ABCPs “under examination with undetermined consequences” following the August 16, 2007 announcement that a group comprising bankers, lenders and major investors had reached an agreement in principle for a long-term proposal and a provisional accord governing ABCPs (Montréal Accord). Under this proposal, the ABCPs in question would be converted to floating rate bonds (FRB) whose maturity dates would not fall prior to those of the underlying assets.

On September 6, 2007, a Pan-Canadian committee (Committee) of the main investors who had signed the Montréal Accord was created. The Committee then retained the legal services of Goodmans and financial advisors with JP Morgan Chase to supervise the restructuring process envisaged. On October 16, 2008, the Committee Chair proposed restructuring one of the 22 conduits affected by the crisis, and extending the moratorium agreement until December 14, 2008, which was later postponed to January 31, 2008.

The ABCPs in which the Board has invested have not been negotiated on an active market since mid-August 2007.

Given the information made available in the fiscal year that ended on October 31, 2008, changes in credit market conditions and review of the mortgages used based on this new information, the Board re-evaluated the fair value of its ABCP investments. This year, the Board observed a further decline in the value of its investments of \$800 000 (devaluation of \$1 600 000 for the fiscal year ended October 31, 2007).

There is still much uncertainty as to the ABCPs' fair value. It is possible that the financial fair value of these investments will differ considerably from the current estimate. Depending on its scope, this difference must affect the Board's financial performance.

Subsequent event

On March 20, 2008, the Pan-Canadian restructuring committee issued a newsletter giving certain details on the restructuring proposed. Based on these details and other public information, of the \$8 M in ABCPs in which the Board invested, it is estimated that:

- \$6.5M constitutes a combination of securities backed by accounts receivable, synthetic instruments and securitized traditional receivables. When restructuring occurs, the Board will receive priority Class A-1 and A-2 replacement notes and Class B and Class C floating rate, long-term subordinate notes maturing in approximately eight years and nine months. The Board expects to receive notes for replacement at face value as follows:

Class A-1	\$2.7
Class A-2	\$3.0 M
Class B	\$0.6 M
Class C	\$0.2 M

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2008
(in thousands of dollars)

5. ASSET-BACKED COMMERCIAL PAPERS (cont'd)

DBRS assigned an initial rating of AA to the new Class A-1 and A-2 notes. DBRS may change this credit rating based on market conditions.

No rating was assigned to the other categories of notes.

- \$1.5M constitutes securities exposed to mortgage loans at risk. When restructuring occurs, the Board will receive floating rate, long-term notes associated with ineligible assets.

On January 12, 2009, the ABCP Pac-Canadian investors committee announced the restructuring plan's implementation and payment of interest on interest accrued since August 2007 minus restructuring costs in two instalments according to the ABCP series. The Board has posted no interest income since the ABCPS it initially held matured. This interest will be reported in the fiscal year in which it is determined.

6. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
<i>Capital assets</i>			
Olympic facilities	1 221 674	1 221 674	
Equipment	14 038	12 704	1 334
Structure and specific improvements	98 420	47 315	51 105
Leasehold improvements	9 035	6 170	2 865
Automotive equipment	1 626	1 443	183
	<u>1 344 793</u>	<u>1 289 306</u>	<u>55 487</u>
<i>Intangible assets</i>			
Computer software	728	290	438
	<u>1 345 521</u>	<u>1 289 596</u>	<u>55 925</u>

During the fiscal year, the Board acquired capital assets for \$1 416 520 (2007: \$1 349 600) for which the consideration is posted to "Accounts receivable and accrued liabilities".

7. DEFERRED SUBSIDIES

	2008	2007
GOUVERNEMENT DU QUÉBEC		
Subsidy – Operating Fund		
Opening balance	184	368
Receipts	<u>19 580</u>	<u>19 752</u>
	19 764	
Amount posted to revenue	<u>19 764</u>	<u>19 936</u>
Closing balance		<u>184</u>
Subsidy – Capital assets plan		
Opening balance	44 587	37 005
Receipts	<u>10 160</u>	<u>10 080</u>
	54 747	47 085
Subsidy transfer	<u>(3 067)</u>	<u>(2 498)</u>
Closing balance	<u>51 680</u>	<u>44 587</u>
	<u>51 680</u>	<u>44 771</u>

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2008
(in thousands of dollars)

8. SALARIES AND FRINGE BENEFITS

	2008	2007
Regular employees	9 063	9 483
Casual employees	2 790	2 912
Employee benefits	1 937	1 963
Pension fund contributions	573	536
Employment termination costs	180	153
	<u>14 543</u>	<u>15 047</u>

9. INFORMATION INCLUDED IN THE STATEMENT OF CASH FLOWS

Change in other assets and liabilities is as follows:

	2008	2007
Claims	147	3 224
Inventory	(17)	
Prepaid expenses	192	199
Accounts payable and accrued liabilities	3 519	885
Deferred grants	9 976	9 896
	<u>13 817</u>	<u>14 204</u>

10. FINANCIAL INSTRUMENTS*Fair value*

Cash and cash equivalents are reported at fair value. Receivable, accounts payable for accrued liabilities are financial instruments whose book value is similar to their fair value, given that they mature in the short term.

Interest rate risk

Interest rate volatility affects the fair value of the Board's financial assets and liabilities (market risks linked to fixed interest rates), cash and cash equivalents (cash flow risks linked to variable interest rates).

The Board manages its investment portfolio based on its cash requirements and to optimize its interest income.

The effective interest rate earned on short-term investments during the fiscal year varied from 2.30% to 4.66% (2007: 4.30% to 4.83%). These investments mature in 6 to 94 days (2007: 1 to 107 days).

Credit risk

The Board's exposure to credit risk corresponds to the financial assets' book value.

The Board assesses its assets on an ongoing basis and posts a provision for losses when accounts are deemed unrecoverable.

RÉGIE DES INSTALLATIONS OLYMPIQUES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at October 31, 2008
(in thousands of dollars)

11. FUTURE FRINGE BENEFITS

Pension plans

Board employees participate in the Government and Public Employees Retirement Plan (RREGOP), Pension of Management Personnel (PPMP) or Pension Plan for Senior Officials (PPSO), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2008, the Board's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPSO and PPMP from 7.78% to 10.54%.

The Board's contributions charged to the statement for the fiscal year ended October 31, 2008 totalled \$572 801 (2007: \$536 070). Its liability towards these Government plans is restricted to its employer contributions.

12. CONTINGENCIES

Lawsuits and claims have been instituted by or against the Board.

As at October 31, 2008, unsettled lawsuits and claims pending against the Board totalled approximately \$826 000 (2007: \$1 350 000).

Based on an analysis of claims whose outcome is foreseeable, an assessment would indicate that the provisions recorded are sufficient for all such lawsuits and claims.

13. CAPITAL MANAGEMENT

The Board manages its capital, which corresponds to its cumulated surpluses, by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the intentions specified in its incorporating act.

14. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Board is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it.

The Board did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

RÉGIE DES INSTALLATIONS OLYMPIQUES**MANAGEMENT'S REPORT**

The financial statements of the Régie des installations olympiques (Board) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally-accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis..

The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted in its duties by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Board's financial statements in accordance with Canadian generally-accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

M^e André Gourd
President and Chief Executive Officer

Serge Roy
Executive Director, Shared Services

Montréal, December 12, 2008

RÉGIE DES INSTALLATIONS OLYMPIQUES**AUDITORS' REPORT**

To the National Assembly

I have audited the balance sheet of the Régie des installations olympiques as at October 31, 2008 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Board management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Board's financial position as at October 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the accounting changes made to the financial statements as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

The figures for 2007, presented for comparison purposes, come from financial statements that were audited by other auditors.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, December 12, 2008

RÉGIE DES RENTES DU QUÉBEC

(R.S.Q., c. R-9, c. R-15.1, c. I-3

QUÉBEC PENSION PLAN FUND

STATEMENT OF OPERATIONS AND NET ASSETS

for the year ended March 31, 2009

(in thousands of dollars)

	2009	2008
REVENUES		
Contributions to the Québec Pension Plan	9 950 397	9 405 377
Minus: bad debts related to uncollected contributions (Note 6)	11 865	11 615
	9 938 532	9 393 762
Investment income (losses) – net (Note 7)	(9 063 889)	373 191
Other	2 354	2 014
	876 997	9 768 967
EXPENSES		
Pensions and benefits paid		
Retirement benefits	6 855 776	6 489 624
Surviving spouse's benefits	1 528 523	1 495 629
Disability pensions	753 888	731 579
Orphans' pensions	15 975	16 291
Pensions to the children of disabled contributors	9 925	9 863
Death benefits	97 286	97 424
	9 261 373	8 840 410
Reimbursement of social assistance benefits to the Ministère de l'Emploi et de la Solidarité sociale	2 321	2 649
	9 263 694	8 843 059
Administrative expenses (Note 8)	95 179	96 752
	9 358 873	8 939 811
(DEFICIENCY) EXCESS REVENUES OVER EXPENSES	(8 481 876)	829 156
OPENING NET PLAN ASSETS	34 423 892	33 594 736
CLOSING NET PLAN ASSETS	25 942 016	34 423 892

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**QUÉBEC PENSION PLAN FUND**

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Amount receivable from an other funds administered by the Régie des rentes du Québec	1 852	138
Amounts entrusted to the Caisse de dépôt et placement du Québec (Note 9)	25 623 458	34 110 822
Contributions receivable from Revenu Québec	513 437	507 292
Accounts receivable	30 777	26 055
Capital assets (Note 10)	<u>28 738</u>	<u>30 547</u>
	<u>26 198 262</u>	<u>34 674 854</u>
LIABILITIES		
Outstanding cheques less cash on hand (Note 11)	56 834	56 402
Accounts payable	178 182	170 543
Amount owing to another fund administrated by the Régie des rentes du Québec	20	764
Provision for sick leave, vacation time, etc. (Note 14)	<u>21 210</u>	<u>23 253</u>
	256 246	250 962
NET QUÉBEC PENSION PLAN ASSETS (Note 2)	<u>25 942 016</u>	<u>34 423 892</u>
	<u>26 198 262</u>	<u>34 674 854</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
André Trudeau, President and General Manager
Marcel Côté, Vice-President

RÉGIE DES RENTES DU QUÉBEC**QUÉBEC PENSION PLAN FUND**
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
(Deficiency) excess revenues over expenses	(8 481 876)	829 156
Non-cash items:		
Decrease in fair value of participation deposits	8 549 468	1 914 926
Loss on sale of participation deposit units	87 999	
Gains on sale of capital assets	(1)	(1)
Amortization of capital assets	8 490	9 511
Amortization of capital assets attributed to other funds	2 330	2 077
	<u>166 410</u>	<u>2 755 669</u>
Net change in non-cash items related to operating activities	<u>116 732</u>	<u>88 250</u>
Cash receipts related to operating activities	<u>283 142</u>	<u>2 843 919</u>
CASH FLOW RELATED TO INVESTMENT ACTIVITIES		
Revenues from sale of capital assets	597	1
Acquisition of capital assets	(9 607)	(7 411)
Funds entrusted to the Caisse de dépôt et placement du Québec:		
Acquisition of participation deposit units	(2 050 000)	(1 992 000)
Revenues from sale of participation deposit units	<u>1 573 880</u>	<u></u>
Disbursements related to investment activities involving capital assets	<u>(485 130)</u>	<u>(1 999 410)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(201 988)</u>	<u>844 509</u>
OPENING CASH AND CASH EQUIVALENTS	<u>344 015</u>	<u>(500 494)</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u>142 027</u>	<u>344 015</u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**
STATEMENT OF OPERATIONS AND FUND BALANCE
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Fees	6 699	6 688
Guardianships and liquidation	168	594
Other	<u>73</u>	<u>63</u>
	6 940	7 345
Yield attributed by the Québec Pension Plan Fund (Note 5)	<u>(2 405)</u>	<u>253</u>
	<u>4 535</u>	<u>7 598</u>
EXPENSES		
Administrative expenses (Note 5)		
Salaries and fringe benefits	4 891	4 820
Mail and communications	209	71
Travelling expenses	64	63
Professional and technical services	618	680
Building maintenance and rental	344	327
Computer maintenance and rental	148	149
Supplies	47	30
Other	13	11
Bad debts	1	2
Amortization of capital assets allocated by the Québec Pension Plan Fund	303	209
Amortization of the Fund's capital assets	102	65
Professional fees related to tutorship and winding-up of plans	<u>125</u>	<u>583</u>
	<u>6 865</u>	<u>7 010</u>
(DEFICIENCY) EXCESS REVENUES OVER EXPENSES	(2 330)	588
OPENING FUND BALANCE	<u>11 556</u>	<u>10 968</u>
CLOSING FUND BALANCE	<u>9 226</u>	<u>11 556</u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash on hand	9 596	12 239
Accounts receivable	53	17
Amount owed by the Quebec Pension Plan Fund	20	
Capital assets (Note 10)	<u>366</u>	<u>362</u>
	<u>10 035</u>	<u>12 618</u>
 LIABILITIES		
Amount owed to the Québec Pension Plan Fund		138
Provision for sick leave, vacation time, etc. (Note 14)	<u>809</u>	<u>924</u>
	809	1 062
 FUND BALANCE	<u>9 226</u>	<u>11 556</u>
	<u>10 035</u>	<u>12 618</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
André Trudeau, President and General Manager
Marcel Côté, Vice-President

RÉGIE DES RENTES DU QUÉBEC**SUPPLEMENTAL PENSION PLANS MONITORING FUND**
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
(Deficiency) excess revenues over expenses	(2 330)	588
Non-cash item:		
Amortization of the Fund's capital assets	<u>102</u>	<u>65</u>
	(2 228)	653
Net variation in non-cash items related to operating activities	<u>(309)</u>	<u>1 599</u>
Net (disbursement) receipts related to operating activities	<u>(2 537)</u>	<u>2 252</u>
 CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Disbursements related to the acquisition of capital assets	<u>(106)</u>	<u>(267)</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (2 643)	 1 985
OPENING CASH AND CASH EQUIVALENTS	<u>12 239</u>	<u>10 254</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u><u>9 596</u></u>	<u><u>12 239</u></u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT**
STATEMENT OF OPERATIONS
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Gouvernement du Québec contribution	30 631	32 158
Other revenue	<u>5</u>	<u>5</u>
	<u>30 636</u>	<u>32 163</u>
EXPENSES		
Financial expenses (Note 5)		
Salaries and fringe benefits	16 226	16 845
Mail and communications	1 840	1 780
Travelling expenses	200	218
Professional and technical services	3 943	4 077
Building maintenance and rental	1 584	1 533
Computer maintenance and rental	1 459	1 161
Supplies	193	150
Other	53	48
Participation in the financing of the Tribunal administratif du Québec	379	153
Amortization of the capital assets allocated by the Québec Pension Plan	2 027	1 868
Amortization of the Fund's capital assets	<u>2 396</u>	<u>3 850</u>
	<u>30 300</u>	<u>31 683</u>
Financial expenses		
Interest on long-term note payable	<u>336</u>	<u>480</u>
	<u>30 636</u>	<u>32 163</u>
EXCESS REVENUES OVER EXPENSES	<u><u> </u></u>	<u><u> </u></u>

The notes are integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT**
BALANCE SHEET
 as at March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Gouvernement du Québec receivable	735	
Québec Pension Plan Fund repayable		764
Capital assets (Note 10)	<u>9 190</u>	<u>10 134</u>
	<u>9 925</u>	<u>10 898</u>
LIABILITIES		
Québec Pension Plan Fund payable	1 852	
Accrued expenses	49	126
Amount owing to the Gouvernement du Québec		351
Provision for sick leave, vacation time, etc. (Note 14)	1 246	1 407
Notes payable (Note 12)	<u>6 778</u>	<u>9 014</u>
	<u>9 925</u>	<u>10 898</u>

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
 André Trudeau, President and General Manager
 Marcel Côté, Vice-President

RÉGIE DES RENTES DU QUÉBEC**FUND FOR THE ADMINISTRATION OF THE REFUNDABLE CHILD SUPPORT TAX CREDIT**
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Excess revenues over expenses		
Non-cash items:		
Amortization of the Fund's capital assets	<u>2 396</u>	<u>3 850</u>
	2 396	3 850
Net variation in non-cash items related to operating activities	<u>1 292</u>	<u>1 597</u>
Net receipts related to operating activities	<u>3 688</u>	<u>5 447</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Fund withdrawals related to capital asset acquisition and investment activities	<u>(1 452)</u>	<u>(1 583)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Reimbursement of notes payable	<u>(2 236)</u>	<u>(3 864)</u>
Net receipts linked to financing activities	<u>(2 236)</u>	<u>(3 864)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u> </u>	<u> </u>
OPENING AND CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u> </u>	<u> </u>

The notes are an integral part of the financial statements.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND MANDATE OF THE RÉGIE DES RENTES DU QUÉBEC

The Régie des rentes du Québec (Régie) was created in 1965 under the *Act respecting the Québec Pension Plan* (1965, c. 24) to administer the *Act respecting the Québec Pension Plan* (R.S.Q., c. R-9) and the *Supplemental Pension Plans Act* (R.S.Q., c. R-15.1). It pays the refundable child support tax credit provided for by the *Taxation Act* (R.S.Q., c. I-3).

As a mandatary of the Government, the Régie does not pay income tax.

2. DESCRIPTION OF THE RÉGIE'S MANDATE

The following description is provided for information purposes. For more comprehensive information concerning programs, please consult the *Act respecting the Québec Pension Plan*.

a) Québec Pension Plan

The *Act respecting the Québec Pension Plan* came into force on January 1, 1966. The Québec Pension Plan is a compulsory program designed to provide workers and their dependants with basic protection against loss of income due to retirement, disability or death.

QUÉBEC PENSION PLAN FUND FUNDING AND NET ASSETS

The Québec Pension Plan is financed out of contributions shared equally between employees and employers. Self-employed workers must pay both contributions.

The Plan uses the so-called partial funding financing method in which the year's contributions are used to pay current benefits, constitute a reserve allowing the Plan's financing to be stabilized in a context of population aging and protect the Plan from economic fluctuations. The net Québec Pension Plan Fund (RRQ Fund) assets represent a reserve of funds available for the payment of pensions and benefits, the reimbursement of social aid benefits and the Plan's administrative expenses. These net assets do not cover the actuarial present value of pensions and benefits accrued and payable. At March 31, 2009, the Régie's net assets were \$25.9 billion (2008: \$34.4 billion), or 2.8 times the amount of the pensions and benefits paid out in fiscal 2008-2009.

According to the last actuarial analysis, at December 31, 2006, based on the premium rate set at 9.9% since 2003, the Plan will be able to pay pensions and benefits, the Plan's administrative expenses and reimburse the Ministère de l'Emploi et de la Solidarité sociale for social assistance benefits owing throughout the projection period, i.e. until 2050. However, the reserve (net Plan assets) should be less than twice the annual fund outflows 2040 as of 2051. Since statutory actuarial analyses are performed at least once every three years, the next one will report on the Plan's situation at December 31, 2009 and its results will be published during the year 2010.

To measure the Plan's long-term financing stability, we can also refer to the concept of "equilibrium premium rate". This is the contribution rate applicable to future years required to maintain a steady long-term ratio between the reserve and the annual fund outflows. The equilibrium rate is an indicator of an ideal situation for Plan financing. This "tolerance zone" is estimated at 0.30 percentage points by the Régie's head actuary. Further, given that many contextual factors can cause the equilibrium rate to vary from one actuarial analysis to another, the latter is of the opinion that it is necessary to record a gap exceeding the tolerance zone for two actuarial analyses before modifying the Plan. If the equilibrium rate were applied immediately, the reserve would be higher and generate sufficient investment income to offset the shortfall that appears when conditions are inferior to disbursements. It would then grow at the same rate as disbursements, maintaining a stable ratio between the reserve and annual disbursements.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. DESCRIPTION OF THE RÉGIE'S MANDATE (cont'd)

a) Québec Pension Plan (cont'd)

QUÉBEC PENSION PLAN FUND FUNDING AND NET ASSETS (cont'd)

According to actuarial analysis assumptions for 2006, this equilibrium rate is 10.54%, a difference of 0.64 points compared to the premium rate of 9.9% set by the Act. This difference, which exceeds the tolerance zone by 0.30 points, is observed in both consecutive actuarial analyses. According to the actuarial analysis of December 31, 2003, the equilibrium rate was 10.30%.

A December 31, 2008 update of the December 31, 2006 actuarial analysis was produced in early 2009. This update reflects the Plan's demographic and economic data and results at December 31, 2008 to be taken into account along with changes made to the Plan by draft legislation adopted in June 2008. It reflects the impact on the RRQ Fund of the negative yield of 2008. According to this update, the reserve will reach a level of less than twice annual disbursements as of 2024 and become zero in 2037. The Plan's equilibrium rate is 10.95%.

The results of the actuarial analysis at December 31, 2006 and update confirm the necessity of making changes to the Plan to stabilize its long-term financing. Proposals to this effect are presented in a working paper entitled "Toward a Stronger and Fairer Québec Pension Plan" tabled in the National Assembly on June 1, 2008. These proposals will be discussed at the next public consultation on the Plan's status. In fact, at least every six years, a public consultation must be held to examine application of the *Act respecting the Québec Pension Plan* and the expediency of changing the benefits foreseen and the contribution rate. The last consultation dates from 2004 and the next one must be held by 2010.

RETIREMENT BENEFITS

A pension is payable to all contributors aged 60 or over, subject to the provisions of the *Act respecting the Québec Pension Plan*. The monthly pension is equal to 25% of the average monthly pensionable earnings during the contributory period. It is increased or decreased by 0.5% per month of difference with the 65-year anniversary date, depending on whether the person applies for the pension before or after age 65. For new beneficiaries, at March 31, 2009, the maximum monthly pension payable at age 65 was \$908.75.

SURVIVING SPOUSE'S BENEFITS

In the event of death, the surviving spouse is entitled to a pension determined according to the amount contributed to the Plan by the deceased for at least one-third of the contributory period (minimum three years; maximum ten years). The amount of this pension varies mainly according to the surviving spouse's age and the deceased's pensionable earnings and contributions. For new beneficiaries, at March 31, 2009, the maximum monthly pension payable to a surviving spouse was \$765.18.

DISABILITY PENSION

A disability pension is payable to any disabled contributor subject to the provisions of the *Act respecting the Québec Pension Plan*. The amount of the pension varies according to the disabled person's gains and contributions. For new beneficiaries, at March 31, 2009, the maximum monthly pension payable to a disabled contributor was \$1 105.96.

BENEFITS – PENSIONS PAYABLE TO THE CHILDREN OF DISABLED CONTRIBUTORS AND TO ORPHANS

At March 31, 2009, the amount of monthly benefits payable to each dependent child or orphan of a disabled or deceased contributor was \$67.95.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

2. DESCRIPTION OF THE RÉGIE'S MANDATE (cont'd)

a) Québec Pension Plan (cont'd)

DEATH BENEFITS

Death benefits are payable first to the person who paid the funeral expenses, provided that person applies for the benefits within 60 days of the contributor's death. After 60 days, the benefit is payable to qualified applicants within the meaning of the Act respecting the Québec Pension Plan. The amount of this benefit was set at \$2 500 in January 1998 for all contributors meeting Plan requirements.

BENEFIT INDEXATION

Pensions are indexed annually to the average Canadian consumer price index. On January 1, 2009, the rate of indexation was 2.5%.

b) Supplemental pension plans act

Pursuant to the *Supplemental Pension Plans Act*, the Régie is responsible for ensuring that pension plans are administered and operated according to these acts. Its mandate includes encouraging financial planning for retirement, in particular by promoting the establishment and improvement of supplemental pension plans. The supplemental pension plans monitoring fund (RCR Fund) comprises the fees paid into it by the supplemental pension plans under the Régie's supervision.

c) Refundable child support tax credit

The Régie administers the Refundable child support tax credit (CIRSE) under the *Taxation Act*.

An amount is paid to people with dependent children under age 18. It varies depending on their marital status (with or without a spouse), the number of children who are dependent and live with them, their family income the previous year and the number of children for which custody is shared. A supplement is also paid for eligible handicapped children.

The Régie deals with child support customer relations and payment of child support measures.

3. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The main elements for which estimates have been used certain amounts owing to Revenu Québec, the service life of capital assets, the provision for sick leave, vacation time, etc. and the fair value of certain financial instruments.

RÉGIE DES RENTES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

March 31, 2009

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)**a) Financial instruments****FINANCIAL ASSETS AND LIABILITIES**

Financial assets and liabilities are initially reported at fair value and classified into one of the following categories: financial assets or liabilities held for transaction purposes, investments held until maturity, loans and receivables, financial assets available for sale and other financial liabilities. Depending on their classification, they are then classified as indicated below. The intention underlying financial instruments' acquisition and their characteristics determine their classification.

Assets and liabilities held for transaction purposes

The financial instruments classified as assets and liabilities held for transaction purposes are reported at their fair value the date of the balance sheet. Any change in fair value is posted to net results for the period in which it occurs. Fair value is the amount of the consideration on which competent parties acting freely under fully competitive conditions agree on.

Cash, investment income receivable, contributions receivable or repayable, payables, Caisse de dépôt et placement du Québec (CDPQ) advances, amounts owed by the RRQ Fund or other funds, the amount owed by the other funds, the amount owed by the Gouvernement du Québec, cheques in circulation, receivables and accrued expenses have been irrevocably designed for transaction purposes. They are reported at their fair value, which equals their cost, given that they mature in the near future.

The funds entrusted to the CDPQ include participation deposits in a special fund and demand deposits in the General Fund. All of these instruments are held for transaction purposes and reported at fair value, established by the CDPQ using measurement methods used on capital markets such as actualization at the current interest rate of future cash flows, the main stock market prices and the prices supplied by recognized stock brokers. . The CDP performs some evaluations using common evaluation methods. The change in fair value is posted to investment income.

Other financial liabilities

Notes payable to the Refundable child support tax credit (CIRSE) administration fund are classified as other financial liabilities and reported at amortized cost using the effective interest rate method.

COMPREHENSIVE INCOME

During the fiscal year ended March 31, 2009, the Régie carried out no transaction that affected comprehensive income. Consequently, no opening or closing cumulated comprehensive income balance has been shown.

b) Capital assets

Capital assets are shown at acquisition cost. Assets such as "computer systems development" comprise capitalized costs for direct labour, interest and other costs linked directly to systems development up to the start-up date.

Capital assets are amortized using the straight-line method and their probable service life:

Office furniture and equipment	5 to 7 years
Data processing equipment and software	3 to 7 years
Automotive equipment	3 years
Computer systems development	5 to 7 years

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

3. ACCOUNTING POLICIES (cont'd)

b) Capital assets (cont'd)

Leasehold improvements are amortized using the straight-line method over the remaining term of the lease.

Computer systems development is an intangible asset and all other immoveables are capital assets.

The Régie assesses whether there is an objective indication that capital assets have depreciated in value. If so, the amount that can be recovered is calculated. If it is lower than the book value, a loss for depreciation is posted to the statement of operations.

c) Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans. Only the Régie's contributions are charged to the fiscal year's results according to the contribution rates determined for regular service. The Régie's obligations towards these Government plans are restricted to its employer contributions.

d) Plan contributions

Revenu Québec collects the contributions for the Régie and regularly pays them to the latter. These amounts are provisional and subject to verification and correction. These contributions are recorded according to the best estimate at the fiscal year-end. Where applicable, adjustments are posted to the fiscal year in which they are known.

e) Net investment income

The Régie records interest earned and fines collected when notices of assessment are issued by Revenu Québec. These amounts represent best estimates. They are provisional and subject to correction. Where applicable, adjustments are posted to the fiscal year in which they become known.

4. CHANGE IN ACCOUNTING POLICIES

a) Change in accounting policies

On April 1, 2008, the Régie adopted the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations for Section 1530, "Comprehensive Income", Section 3251, "Equity", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3861, "Financial Instruments – Disclosure and Presentation".

In keeping with these standards, all financial instruments were classified into the following categories: financial assets or liabilities held for transaction purposes, loans and receivables, financial assets available for sale and other financial liabilities. As stipulated in the CICA Handbook, this change is applied prospectively. Application of these new standards had no effect on the amounts reported on the financial statements.

b) Accounting methods to be adopted

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008. Its impact on the Régie's financial statements will be negligible.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

5. ADMINISTRATIVE EXPENSE-SHARING AND ATTRIBUTION OF YIELD BETWEEN THE VARIOUS FUNDS ADMINISTERED BY THE RÉGIE

The means used to divide administrative costs among the various funds administered by the Régie is established by attributing the direct costs for each fund to that fund and distributing indirect costs based on the efforts the Régie really devoted to each fund or other appropriate indicators.

The cash and cash equivalents of the RCR Fund are entrusted to the RRQ Fund, which takes care of investing them at the Caisse de dépôt et placement du Québec. Based on the agreement between the two funds, a yield is calculated using the weighted average of the yield of participation deposits and demand deposits is attributed to the RCR Fund.

6. EXPENSES RELATED TO CONTRIBUTIONS COLLECTED BY REVENU QUÉBEC

	2009	2008
Administrative expenses	18 654	17 967
Expenses inherent in accounts receivable:		
Bad debt related to contributions not collected	11 865	11 615
	<u>30 519</u>	<u>29 582</u>

According to the Act respecting the Québec Pension Plan, Revenu Québec is the agency mandated to collect Plan contributions. In the context of this mandate, the Department invoices the Régie for administrative and other expenses it incurs for accounts receivable. These expenses have been determined by Order-in-Council based on the expenses actually incurred by Revenu Québec. Under an agreement signed in 1998 with Revenu Québec, these expenses are reassessed periodically and indexation mechanisms are provided for between assessments.

The 1998 agreement with Revenu Québec is currently being renegotiated, but remains in effect until a new agreement is reached. When the work for the 2008-2009 financial statements was completed, the Régie concluded a new agreement in principle with Revenu Québec. It is expected to be signed soon. The amount reported this year already reflects the terms and conditions of this new agreement.

7. (LOSSES) QUÉBEC PENSION PLAN FUND INVESTMENT INCOME

	2009	2008
Revenues		
(Losses) revenue from Caisse de dépôt et placement du Québec participation deposits:		
Current revenues	1 336 519	1 432 110
Net (losses) gains on sale of investments	(1 797 464)	826 275
Fair value decrease	(8 549 468)	(1 914 926)
Losses on sale of participation deposit units	(87 999)	
	<u>(9 098 412)</u>	<u>343 459</u>
Interest on demand deposits in the Caisse de dépôt et placement du Québec	9 733	10 790
	<u>(9 088 679)</u>	<u>354 249</u>
Interest earned and fines collected on contribution notices issued	24 263	23 037
Other interest	17	27
	<u>(9 064 399)</u>	<u>377 313</u>
Expenses		
Interest on Caisse de dépôt et placement du Québec advances	(220)	(2 391)
Interest on pensions and benefits	(1 668)	(1 479)
Yield attributed to the RCR Fund (Note 5)	2 405	(253)
Interest on bank overdraft	(12)	
Exchange gains	5	1
	<u>510</u>	<u>(4 122)</u>
	<u>(9 063 889)</u>	<u>373 191</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

8. QUÉBEC PENSION PLAN FUND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	43 185	44 832
Mail and communications	4 195	3 823
Travelling expenses	806	746
Professional and technical services	8 527	9 075
Outside expert medical opinions	1 703	1 367
Building maintenance and rental	3 762	3 725
Computer maintenance and leasing	3 035	2 716
Supplies	564	742
Other	146	108
Expenses related to Revenu Québec's collection of contributions (Note 6)	18 654	17 967
Participation in Tribunal administratif du Québec financing	883	1 239
Pension and benefit overpayments	946	564
Bad debts	283	337
Amortization of capital assets	8 490	9 511
	<u>95 179</u>	<u>96 752</u>

9. QUÉBEC PENSION PLAN SPECIAL FUND AMOUNTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

	2009	2008
a) Pension plan special fund deposits with the Caisse de dépôt et placement du Québec		
Demand deposit	198 861	400 417
Participation deposits	25 368 559	33 529 906
Investment income receivable	56 038	180 499
	<u>25 623 458</u>	<u>34 110 822</u>

The Régie des rentes special fund participation deposits with the CDPQ are expressed in units. These units are refundable subject to prior notice in keeping with the terms of CDPQ regulations at the fair value of the special fund's net equity at month's end. At March 31, 2009, the Régie owned 33 270 261 participation units (2008: 33 144 040).

	2009	2008
Cost of units	<u>29 110 444</u>	<u>28 722 323</u>

b) Restructuring of third-party and bank-sponsored ABCPs

The fair value of participation deposits at March 31, 2009 was established by the CDPQ considering a decline in value on the investments it holds on the Canadian market for restructured asset-backed commercial papers (ABCPs).

ABCPs

ABCPs are short-term debts backed by various financial instruments. Assets, such as mortgage or consumer debts, and exposure to risk, such as credit default swaps, are taken over by a conduit through different types of operations, including the purchase of assets and financial derivatives. ABCPs are generally issued for a duration of 30, 60 or 90 days, either at a discount or with interest.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

9. QUÉBEC PENSION PLAN SPECIAL FUND AMOUNTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)**b) Restructuring of third-party and bank-sponsored ABCPs (cont'd)**

ABCPs (cont'd)

The terms of the financial instruments used as assets by a conduit issuing ABCPs are generally longer than the ABCP issued. Usually, the conduit must have liquidity guarantee facilities with a financial institution that it can, under certain circumstances, use, should it no longer be able to issue new ABCP securities to repay those that have matured or meet additional liquidity requirements.

The high-risk mortgage loan crisis in the United States triggered disturbances on international markets that resulted in a liquidity crisis on the Canadian third-party ABCP market in August 2007. Since this time, the CDP has been unable to get reimbursement for amounts owing under the third-party ABCPs it holds when they mature.

RESTRUCTURING EFFORTS

The efforts to restructure third-party ABCPs begun in August 2007 resulted in the signing of an accord on December 24, 2008. This accord was then approved by the decision-making authorities of the institutions concerned and orders-in-council were issued. The accord was then ratified as proposed and resulted in a securities exchange on January 21, 2009.

Under the accord, third-party ABCPs were restructured, leading to the creation of three new trusts, called “master asset vehicles.” These ABCPs were converted into new securities whose maturity dates corresponded to those of the underlying assets. The new securities bear interest at rates that will ultimately reflect the cash flows available within these vehicles, including the cost inherent in the financing facilities included in the restructuring plan.

The CDP also holds ABCPs issued by trusts sponsored by financial institutions. Due to market flows, these trusts had to face major collateral calls by credit protection buyers. Consequently, they were also restructured in 2008.

FAIR VALUE ESTABLISHMENT

Given that, on March 31, 2009, there was no active market for the third-party and bank ABCPs in which the CDP had invested, using CICA guidelines, it established fair values for the various ABCPs using a measurement technique based on a financial model whose assumption and probabilities reflect uncertainties related to amounts, cash flow performance and maturity, non-liquidity risk, nature and credit risk of the underlying debts and financial assets, and credit spreads that reflect market conditions at December 31, 2008. Based on the information available at March 31, 2009, the assumptions use observable market data when possible (interest rates, credit quality and credit cost). They also take into account the plan’s special features and are based, in part, on assumptions that do not reflect prices or rates observable on the market.

EFFECT ON RRQ FUND RESULTS

For the fiscal year ended March 31, 2009, the share in expenses attributed to the RRQ Fund is \$961.8 million (2008: \$425 million) for an investment in ABCPs, via the CDPQ, of \$2 829 billion (2008: \$2 789 billion). This share comprises:

- the share of the \$917.6 million (\$411 million in 2008) unrealized loss on these securities;
- the share of the \$44.2 million (\$14 million in 2008) realized losses on these securities.

For the fiscal year ended March 31, 2009, the share in income attributed to the RRQ Fund for interest received from third parties on ABCPs was \$96.8 million (2008: none).

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

9. QUÉBEC PENSION PLAN SPECIAL FUND AMOUNTS ENTRUSTED TO THE CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (cont'd)
b) Restructuring of third-party and bank-sponsored ABCPs (cont'd)

EFFECT ON RRQ FUND RESULTS (cont'd)

The estimated fair value of the CDPQ's ABCP investments at March 31, 2009 is unlikely to be an indication of the final or future fair value. While CDPQ management deems its evaluation technique to be appropriate under the circumstances, it mentions, in its audited financial statements, that changes in the main assumptions, notably those related to determining discount rates, credit spreads, anticipated return, the underlying assets' credit risk and the value of the various commitments and guarantees, could significantly affect the fair value of the new bills and other ABCP securities in the coming fiscal years. Consequently, resolving these uncertainties could cause the final value of these investments in later periods to differ considerably from CDPQ management's best current estimates.

Review of the decline in value posted by the CDPQ will affect the fair value of the participation deposits held by the RRQ Fund.

In addition to the amounts invested in ABCPs, the CDPQ is subject to contingencies resulting from the guarantees it issued in the context of third-party and bank ABCP restructuring. The share of these guarantees attributed to the RRQ Fund is \$1 694 billion (2008: \$1 139 billion).

The share in unrealized losses on ABCPs attributed to the RRQ Fund includes \$139 million for guarantees associated with ABCPs (2008: \$84.6 million).

10. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
RRQ Fund				
Office furniture and equipment	5 692	5 128	564	655
Data processing equipment and software	32 666	27 126	5 540	6 374
Automotive equipment	61	61		
Leasehold improvements	5 052	3 671	1 381	1 433
Computer systems development	105 507	84 254	21 253	22 085
	<u>148 978</u>	<u>120 240</u>	<u>28 738</u>	<u>30 547</u>
RCR Fund				
Computer systems development	<u>2 255</u>	<u>1 889</u>	<u>366</u>	<u>362</u>
CIRSE Fund				
Computer systems development	<u>40 165</u>	<u>30 975</u>	<u>9 190</u>	<u>10 134</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

10. CAPITAL ASSETS (cont'd)

Acquisitions for the year are:

	<u>Total acquisitions</u>
RRQ Fund	9 607
RCR Fund	106
CIRSE Fund	1 452

Fully amortized capital assets were sold during the fiscal year in the RRQ Fund generating \$1 036. Capital assets were sold at net book value for a consideration equivalent to \$596 000.

11. ADVANCES AND BANK BORROWINGS**Caisse de dépôt et placement du Québec advances**

Caisse de dépôt et placement du Québec advances are not guaranteed and are limited to \$650 million. They bear interest at the demand deposit rate established daily plus 0.05%. The agreement terminates on January 5, 2011

Other bank borrowings

At March 31, 2009, the Régie had an unguaranteed credit line of \$50 million renewable on October 1, 2009- Amounts used bear interest at the prime rate.

12. NOTES PAYABLE

	<u>2009</u>	<u>2008</u>
Refundable CIRSE Fund		
Part of short-term borrowing	1 629	2 242
Part of long-term borrowing	<u>5 149</u>	<u>6 772</u>
	<u>6 778</u>	<u>9 014</u>

The long-term borrowing now comprises the following four notes of the Gouvernement du Québec's Financing Fund. The cost of each borrowing includes the management fees invoiced when it was issued.

	<u>2009</u>	<u>2008</u>
Borrowing No. 1 on a note, bearing interest at 4.03%, was fully repaid on June 1, 2008.		579
Borrowing No. 2 on a note, bearing interest at 4.24%, after issuing and management costs until October 10, 2009.	144	382
Borrowing No. 3 on a note, bearing interest at 4.31%, after issuing and management costs until October 10, 2011.	844	1 147
Borrowing No. 4 on a note, bearing interest at 4.34%, after issuing and management costs until October 10, 2013.	<u>5 790</u>	<u>6 906</u>
	<u>6 778</u>	<u>9 014</u>

Payments of principal on the long-term borrowing for the next five years are:

2010	\$1 628 960
2011	\$1 548 568
2012	\$1 469 690
2013	\$1 325 487
2014	\$805 232

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

13. FINANCIAL INSTRUMENTS

a) Measurement of various risks

MARKET AND CONCENTRATION RISK

The market risk corresponds to the financial losses the Régie might incur due to unfavourable fluctuations in financial instrument values due to variations in the parameters underlying their evaluation, notably interest rates, exchange rates and stock market rates. The concentration risk arises when investments are made in the same sector or in the same entity.

The main risk is this regard concerns the fluctuation of the funds entrusted in their totality to the CDPQ. To manage these risks, the Régie has an investment policy that seeks to optimize the yield of the Québec Pension Plan special fund by ensuring a level of risk that is acceptable to the Régie.

The CDPQ's market risk is measured using value-at-risk (VAR), which is based on a statistical evaluation of the volatility of the market value of each position and its correlations. The VAR is statistical technique used to assess the worst possible loss anticipated in a period given a certain confidence level. The CDPQ uses a confidence level of 84% for its calculations. The VAR is calculated for each instrument contained in all specialized portfolios and the results are aggregated for the global portfolio.

The CDPQ uses the historical simulation method to estimate VAR. An 800-day horizon for observing risk factors, such as exchange rate, interest rate and financial asset price fluctuation, is used to estimate yield volatility and its correlation among assets. The historical simulation method is based primarily on the assumption that the future will resemble the past. This method requires historical data for all risk factors needed to estimate instrument yield. Should some of these historical data be missing, substitution measurement methods are used.

Two types of risk are calculated: absolute risk and active risk. Absolute risk, or absolute VAR, of the CDPQ's reference portfolio (overall target portfolio for depositors) is the result of the risk (volatility) of reference indices of the categories of asset comprising this portfolio. For example, if depositors choose globally to increase the proportion of shares in their respective reference portfolios, this risk will automatically be increased, given the greater volatility of this category of asset. Hence, the anticipated yield would also increase significantly. The absolute risk of the global portfolio (composed of real investments) corresponds to the risk (volatility) of the positions composing the CDPQ's global portfolio. The absolute risk of the global portfolio and of the reference portfolio are calculated using the same method but cover different portfolios, that is, the global portfolio actually invested by CDPQ and the reference portfolio targeted by depositors.

The active risk, or active management VAR, represents the possibility that the CDPQ's yield differs from that of its reference portfolio through active management of its global portfolio. The higher the risk, the more the global portfolio's absolute yield will differ from the yield of the reference portfolio.

The absolute risk of the CDPQ's reference portfolio, the absolute risk of the global portfolio and active risk are measured on an ongoing basis.

At March 31, 2009, the absolute risk and active risk of the RRQ special CDPQ fund 1467 and 412 centesimal points respectively.

CREDIT RISK

The Régie deems it is exposed to a limited credit risk vis-à-vis its clients. The non-recovery risk is attenuated by the fact that receivables come from a largest number of clients, with the greatest value linked to public and parapublic organizations.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

13. FINANCIAL INSTRUMENTS (cont'd)**a) Measurement of various risks (cont'd)**

CREDIT RISK (cont'd)

The Régie measures its receivables and adjusts the level of the provision for bad debts according to its analysis of each client based on the client file and historical trends observed for similar cases.

INTEREST RATE RISK

The Régie is exposed to interest rate risk due its credit margins, whose interest rates are variable.

This risk is negligible for notes payable given that the Régie cannot repay them in advance or renegotiate the rates before they mature.

LIQUIDITY RISK

The liquidity risk is the risk that the Régie may not be able to honour its commitments linked to its financial liabilities.

Every year, the Régie performs liquidity forecasts for the coming five years. This analysis involves forecasts for the first year, which are then broken down month by month and those of the following four years are broken down also. At the beginning of every fiscal year, the Régie carries out advance planning of real liquidity requirements for the next 12 months. During the year, the Régie updates these forecasts should important changes occur that might influence the liquidity forecast.

The Régie also has credit margins for a maximum of \$700 million to meet its short-term liquidity requirements without having to sell participation deposit units. Further, once a month, the Régie can sell, without restriction, participation deposit units to replenish its liquidities if it so desires, for example, in case of major contingencies.

Every three years, the Régie performs an actuarial analysis that defines liquidity forecasts for the Plan over a very long horizon, that is, until 2055.

CIRSE Fund borrowings are guaranteed by the Gouvernement du Québec if the Fund cannot legally honour its obligations.

As a result, the Régie's liquidity risk is deemed low.

b) Fair value of financial instruments

	Book value	Fair value
RRQ Fund		
Financial assets held for transaction purposes	25 567 420	25 567 420
Financial assets designated for transaction purposes	602 104	602 104
Financial liabilities designated for transaction purposes	235 036	235 036
RCR Fund		
Financial assets designated for transaction purposes	9 669	9 669
CIRSE Fund		
Financial assets designated for transaction purposes	735	735
Financial liabilities designated for transaction purposes	1 901	1 901
Other financial liabilities ¹	6 778	7 215

1 The fair value of notes payable is established by actualizing future cash flows at market interest rates for similar securities.

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

14. FRINGE BENEFITS**Pension plans**

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

At January 1, 2009, the Régie's RREGOP contribution rate was 8.19% of the contributory payroll, the CSSP, 7.25% and the RPSO, 10.54%.

The Régie's contributions charged to the year-end statement, based on the contribution rates set for regular service, totalled \$3 373 767 (2008: \$3 170 897). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave, vacation time, etc.

During the fiscal year, the Régie changed the method it uses to measure its obligations related to accumulated sick leave. Henceforth, these obligations will be measured using an actuarial method based on defined benefit breakdown. This change in accounting estimate decreased the value of the obligation at March 31, 2001. The impact of this change was posted to the fiscal year's results and affected the expenses of each fund as follows:

- RRQ Fund: decrease of salaries and fringe benefits of \$2 154 000
- RCR Fund: decrease of salaries and fringe benefits of \$131 000
- CIRSE Fund: decrease of salaries and fringe benefits of \$94 000

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure payment.

	2009	2008
RRQ Fund		
Opening balance	23 253	22 917
Expenses	6 032	7 843
Used	<u>(8 075)</u>	<u>(7 507)</u>
Closing balance	<u>21 210</u>	<u>23 253</u>
RCR Fund		
Opening balance	924	886
Expenses	237	332
Used	<u>(352)</u>	<u>(294)</u>
Closing balance	<u>809</u>	<u>924</u>
CIRSE Fund		
Opening balance	1 407	1 271
Expenses	481	722
Used	<u>(642)</u>	<u>(586)</u>
Closing balance	<u>1 246</u>	<u>1 407</u>

RÉGIE DES RENTES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

14. FRINGE BENEFITS (cont'd)**Provision for sick leave, vacation time, etc. (cont'd)**

Depending on the Fund concerned, the long-term economic assumptions used to determine the obligations' actuarial value are: a 2%-to-3.25% growth in interest rates and an actualization rate of 2.53% to 5.42%.

15. CASH FLOW

The cash and cash equivalents shown in the cash flow statement include the following financial statement items:

	<u>2009</u>	<u>2008</u>
RRQ Fund		
Outstanding cheques minus cash	(56 834)	(56 402)
Demand deposit	<u>198 861</u>	<u>400 417</u>
	<u>142 027</u>	<u>344 015</u>
RCR Fund		
Cash	<u>9 596</u>	<u>12 239</u>

CIRSE Fund

This Fund has no cash or cash equivalents since it is administered by the RRQ. The Ministère de la Famille et des Aînés reimbursed the Régie for all expenses incurred for this Fund.

The following chart shows the interest paid during the fiscal year. This interest is already included in the expense categories of each fund presented in the results statement or the notes to the financial statements:

	<u>2009</u>	<u>2008</u>
RRQ Fund	<u>2 240</u>	<u>5 474</u>
CIRSE Fund	<u>336</u>	<u>453</u>

16. CONTRACTUAL COMMITMENTS

The Régie had already signed contracts for fiscal 2010 and thereafter totalling \$72 188 578 with various suppliers, including \$99 082 for CIRSE Fund computer systems development projects and \$101 096 for the RCR Fund.

RÉGIE DES RENTES DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the funds administered by the Régie des rentes du Québec (Régie) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. The internal auditing department performs periodic audits to ensure that internal controls are adequate, ongoing and applied consistently by the Régie.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Régie's head actuary conducts an actuarial analysis of the Québec Pension Plan every three years, in keeping with recognized actuarial standards. This analysis provides information on the Plan's capacity for paying long-term benefits and determines the rate of the balance contribution. This information is then shown in the Québec Pension Plan Fund's financial statements. The head actuary presents the actuarial analysis to the President-CEO, who transmits it to the Minister responsible for the Régie for tabling in the National Assembly.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing and performance committee, the majority of whose members do not belong to management. The committee meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Régie's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing and performance committee to discuss any matter related to the audit.

André Trudeau
President-CEO

Louis Larouche, CA
Director, Corporate Comptrolling and
Material Resources

Québec, May 13, 2009

RÉGIE DES RENTES DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the financial statements of the Québec Pension Plan Fund (Fund) as at March 31, 2009 and the statements of operations and net assets and cash flows for the fiscal year then ended. I have also audited the balance sheets of the Supplemental Pension Plans Monitoring Fund and the Refundable Child Support Tax Credit Administration Fund of the Régie des rentes du Québec as at March 31, 2009; the statements of operations and fund balance and cash flows for the Supplemental Pension Plans Monitoring Fund and the statements of operations and cash flows for the Refundable Child Support Tax Credit Administration Fund for the fiscal year then ended. These financial statements are the responsibility of Régie management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation

In my opinion, these financial statements present, in all material respects, the financial position of the Régie's funds as at March 31, 2009 and the results of their operations and cash flow for the fiscal year then ended, in keeping with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of application of the changes to accounting policies for financial instruments disclosed in Note 4, these policies were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 13, 2009

RÉGIE DU BÂTIMENT DU QUÉBEC
(R.S.Q., c. B-1.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009	2008 (Reclassified)
REVENUES		
Sectorial tariffing	\$27 731 913	\$27 128 515
Professional qualification	22 929 484	22 770 581
Other (Note 4)	331 167	430 571
	<u>50 992 564</u>	<u>50 329 667</u>
EXPENSES		
Salaries and fringe benefits (Note 3)	25 561 316	22 699 407
Transportation and communications	2 409 492	2 188 781
Professional and ancillary services	10 101 774	7 864 683
Rent	3 343 418	3 193 484
Material and supplies	417 686	503 500
Amortization of capital assets	3 242 572	622 235
Bad debts	369 231	268 647
	<u>45 445 489</u>	<u>37 340 737</u>
EXCESS REVENUES OVER EXPENSES	<u>\$5 547 075</u>	<u>\$12 988 930</u>

The notes are an integral part of the financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2009

	2009			2008
	Unappropriated cumulated surplus	Cumulated surplus allocated to the contingency reserve	Total	Total
Previously established balance	\$9 412 338	\$15 000 000	\$24 412 338	\$11 430 251
Adjustment (Note 3)	568 137		568 137	561 294
Adjusted balance	9 980 475	15 000 000	24 980 475	11 991 545
Excess revenues over expenses	5 547 075		5 547 075	12 988 930
Allocation to the contingency reserve (Note 12)	(2 000 000)	2 000 000		
CLOSING BALANCE	\$13 527 550	\$17 000 000	\$30 527 550	\$24 980 475

The notes are an integral part of the financial statements.

RÉGIE DU BÂTIMENT DU QUÉBEC**BALANCE SHEET**
as at March 31, 2009

	<u>2009</u>	<u>2008</u> (Reclassified)
ASSETS		
Current assets		
Cash on hand	\$4 025	\$4 025
Accounts receivable (Note 5)	5 631 048	4 714 537
Advance to the Consolidated Revenue Fund (Note 6)	14 478 057	12 456 520
Gouvernement du Québec receivable (Note 7)	1 151 737	1 151 737
Prepaid expenses	24 560	599 096
	<u>21 289 427</u>	<u>18 925 915</u>
Gouvernement du Québec receivable (Note 7)	194 933	1 346 670
Capital assets (Notes 3 and 8)	<u>24 449 101</u>	<u>22 384 341</u>
	<u><u>\$45 933 461</u></u>	<u><u>\$42 656 926</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$3 219 382	\$4 912 959
Vacation compensation owed to employees	2 823 689	2 641 729
Short-term portion of long-term debt (Note 10)	779 973	751 498
	<u>6 823 044</u>	<u>8 306 186</u>
Provision for sick leave (Notes 3 and 11)	4 526 686	4 534 111
Long-term debt (Note 10)	<u>4 056 181</u>	<u>4 836 154</u>
	<u>15 405 911</u>	<u>17 676 451</u>
UNAPPROPRIATED CUMULATED SURPLUS	13 527 550	9 980 475
CUMULATED SURPLUS ALLOCATED TO THE CONTINGENCY RESERVE (Note 12)	<u>17 000 000</u>	<u>15 000 000</u>
	<u>30 527 550</u>	<u>24 980 475</u>
	<u><u>\$45 933 461</u></u>	<u><u>\$42 656 926</u></u>
COMMITMENTS (Note 13)		
CONTINGENCY (Note 14)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Josée De La Durantaye
Michel Beaudoin

RÉGIE DU BÂTIMENT DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> (Reclassified)
OPERATING ACTIVITIES		
Excess revenues over expenses	\$5 547 075	\$12 988 930
Items not affecting cash on hand:		
Amortization of capital assets	3 242 572	622 235
Change in assets and liabilities related to operations:		
Accounts receivable	(916 511)	656 879
Gouvernement du Québec receivable	1 151 737	1 059 239
Prepaid expenses	574 536	(269 030)
Accounts payable and accrued liabilities (excluding the amount related to capital assets, i.e. \$561 207 in 2009 and \$2 187 022 for 2008)	(67 762)	(7 204)
Vacation pay owing to employees	181 960	4 282
Provision for sick leave	<u>(7 425)</u>	<u>(120 119)</u>
Cash flows related to operating activities:	<u>9 706 182</u>	<u>14 935 212</u>
INVESTMENT ACTIVITIES		
Disbursement for acquisition of capital assets	<u>(6 933 147)</u>	<u>(12 690 242)</u>
FINANCING ACTIVITIES		
Long-term debt reimbursement	<u>(751 498)</u>	<u>(524 398)</u>
INCREASE OF CASH AND ADVANCE TO THE CONSOLIDATED REVENUE FUND	2 021 537	1 720 572
OPENING CASH AND ADVANCE TO THE CONSOLIDATED FUND	<u>12 460 545</u>	<u>10 739 973</u>
CLOSING CASH AND ADVANCE TO THE CONSOLIDATED FUND	<u><u>\$14 482 082</u></u>	<u><u>\$12 460 545</u></u>

The notes are an integral part of the financial statements.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Régie du bâtiment du Québec (Board), created under the *Building Act* (R.S.Q., c. B-1.1), is mandated to oversee the administration of this Act in order to protect the public. To do so, the Board performs the duties listed in Section 111 of the *Building Act*:

- to ensure that this Act is applied and that building and safety standards are observed;
- to check the qualifications of contractors and owner-builders so as to ensure their integrity, competence and solvency;
- to disseminate information and give opinions on the content and application of the *Building Code* and the *Safety Code*;
- to adopt measures to foster a greater sense of responsibility among persons working in the field of construction;
- to manage guaranty plans and administer a compensation fund.

The Board also oversees the application of standards in certain technical sectors governed by the *Pressure Vessels Act* (R.S.Q., c. A-20.01), *Act respecting the conservation of energy in buildings* (R.S.Q., c. E.1.1), *Stationary Enginemen Act* (R.S.Q., c. M-6) and *Public Buildings Safety Act* (R.S.Q., c. S-3). These statutes will eventually be replaced by new chapters on the *Building Code* and *Safety Code* in the *Building Act*.

The Board is an independent agency financed out of a separate budget. It is a legal person and Gouvernement du Québec agency, funding its activities from its revenues.

The Board is a mandatory of the State and, consequently, does not pay Québec or Canadian income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Board gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and, in the absence of relevant guidelines therein, any other source of generally accepted accounting principles (GAAP) used is consistent with it. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the provision for bad debts, the service life of capital assets and the provision for sick leave. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and amortized over their estimated service using the straight-line method and the following durations:

- Leasehold improvements	Maximum duration of lease 10 years
- Office furniture	5 years
- Computer equipment	3 years
- Computer systems development	5 to 7 years

Depreciation of long-term assets

Amortizable long-term assets are examined to determine whether events or changes in a market conditions show that a capital asset no longer contributes to the capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. In such cases, the depreciation must be posted to the results for the fiscal year in which it is determined. This depreciation represents the difference in the asset's book value and fair value.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Revenue reporting

Revenues from inspections and qualification are reported in the fiscal year in which they are earned, based on the rate-setting methods in effect determined by regulation. However, if adjustments in inspection revenues are required, given that their reporting is linked to declarations made by contractors, these adjustments are posted to inspection revenues for the fiscal year in which they become known.

Other revenues represent interest income, reported using the accrual method, and proceeds from various sources, reported when the good is delivered or the service rendered, if the amount is, or can be, determined and recovery is reasonably certain.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Board lacks sufficient information to apply the accounting procedure for defined-benefit plans

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

3. CHANGE IN ACCOUNTING POLICIES

Change in accounting framework

Since April 1, 2008, at the Government's request, the Board has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The impacts of these new standards are posted retroactively and the comparative financial statement restated.

The accounting policies affected by this change in accounting framework are described below along with the change's impact, where applicable.

Financial instruments

Information related to financial instruments has been removed since the standards applying to them do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Capital assets and intangible assets have been grouped together under "Capital assets". Treatment of this item this fiscal year is the same as last year.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**3. CHANGE IN ACCOUNTING POLICIES (cont'd)****Change in accounting framework (cont'd)***Provision for sick leave*

As of this fiscal year, the provision for sick leave is based on an actuarial method, whereas previously it was based on the cost of unused sick leave accumulated by employees minus the estimated value of days for which employees were not paid.

The retroactive application of this change increased (decreased) the following items in the financial statements:

	2008
Operations	
Salaries and fringe benefits	\$(6 843)
Excess revenues over expenses	6 843
Balance sheet	
Provision for sick leave	(568 137)
Cumulated surplus at the beginning	561 294
Cumulated surplus at the end	568 137

4. OTHER REVENUE

	2009	2008
Interest income	\$206 871	\$391 067
Other	124 296	39 504
	<u>\$331 167</u>	<u>\$430 571</u>

5. CLAIMS

	2009	2008
Sectorial tariffing	\$5 184 341	\$4 616 371
Professional qualification	778 989	354 921
Employees	4 550	5 850
Interest accrued receivable	14 420	88 304
Other	273 939	13 649
	<u>6 256 239</u>	<u>5 079 095</u>
Provision for bad debts	<u>(625 191)</u>	<u>(364 558)</u>
	<u>\$5 631 048</u>	<u>\$4 714 537</u>

6. ADVANCE TO THE CONSOLIDATED REVENUE FUND

The advance to the Consolidated Revenue Fund bears interest at the prime rate (2.50%) minus 2.50%, which represented a rate of zero at March 31, 2009 (2.75% at March 31, 2008).

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

7. GOUVERNEMENT DU QUÉBEC RECEIVABLE

The Gouvernement du Québec receivable for the value of banks of sick leave and vacation time transferred at December 1, 2005 and April 1, 2007 does not bear interest. The terms of encashment will be reviewed annually to reflect the actual use of these banks.

The terms of encashment envisaged at March 31, 2009 are:

	2009	2008
2008-2009		\$1 151 737
2009-2010	\$1 151 737	1 151 737
2010-2011	194 933	194 933
	<u>1 346 670</u>	<u>2 498 407</u>
Short-term portion	<u>(1 151 737)</u>	<u>(1 151 737)</u>
	<u>\$194 933</u>	<u>\$1 346 670</u>

8. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net value	Net value
Leasehold improvements	\$431 702	\$215 433	\$216 269	\$227 170
Office furniture	84 568	54 212	30 356	28 561
Computer equipment	2 500 300	1 536 588	963 712	793 084
Computer systems development	27 254 114	4 015 350	23 238 764	496 913
Computer systems development in progress				20 838 613
	\$30 270 684	\$5 821 583	\$24 449 101	\$22 384 341

During the fiscal year, capital asset acquisitions totalled \$5 343 727* (2008: \$13 549 340*).

* Includes a portion of the amortization of capital assets, which was capitalized, for an amount of \$36 393 (2008: \$81 500).

9. SHORT-TERM BORROWING

The Board has an authorized credit line of a maximum of \$5 000 000 with the Gouvernement du Québec expiring on March 31, 2011. At March 31, 2009, none of this amount had been used. Sums withdrawn bear interest at the prime rate and are payable on June 30 and December 31 each year. At March 31, 2009, the prime rate was 2.50% (5.25% at March 31, 2008).

10. LONG-TERM DEBT

Owing to the Gouvernement du Québec

Amount owed to the Gouvernement du Québec, interest-free, repayable in annual instalments spread over the service life of the assets transferred when the Board was converted into an independent organization with extra-budgetary funding.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

10. LONG-TERM DEBT (cont'd)**Owing to the Gouvernement du Québec** (cont'd)

	2009	2008
Opening balance	\$5 587 652	\$6 112 050
Reimbursement for the year	(751 498)	(524 398)
	4 836 154	5 587 652
Short-term portion of long-term debt	(779 973)	(751 498)
	\$4 056 181	\$4 836 154

Under the agreement with the Government, the payments of principal foreseen for the coming fiscal years are estimated at: \$779 973 in 2009-2010, \$772 606 for the five subsequent years and \$193 151 for the last year in 2015-2016.

11. FUTURE FRINGE BENEFITS**Pension plans**

Board staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Board's RREGOP contribution rate remained 8.19% of the contributory payroll and that of the PPMP, 10.54%. The CSSP contribution rate remained 7.25%.

The Board's contributions posted to operations for the fiscal year totalled \$1 224 221 (2008: \$1 021 082). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

	2009	2008
Previous balance	\$5 102 248	\$5 215 524
Adjustment (Note 3)	(568 137)	(561 294)
Adjusted balance	4 534 111	4 654 230
Amount transferred from the government following the arrival of employees at April 1, 2007		92 499
Annual expenses	1 596 376	989 810
Benefits paid	(1 603 801)	(1 202 428)
Closing balance	\$4 526 686	\$4 534 111

To actualize the provision for sick leave, the Board used actualization rates of 4.46% and 5.10% depending on the employee's pension and wage growth rates of 3.85% and 4.35%.

RÉGIE DU BÂTIMENT DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2009

12. CUMULATED SURPLUS ALLOCATED TO THE CONTINGENCY RESERVE

Under a decision by the Board of Directors, the Board created a contingency reserve to protect itself from unforeseen events that might compromise its financial stability and capacity to accomplish its quality and safety mission. The reserve target was reassessed at \$17 M over five years and the allocation for fiscal year was set at \$2 M (2008: \$7.5 M).

13. COMMITMENTS

Under service agreements with the Ministère de l'Emploi et de la Solidarité sociale (MESS), the Board committed to paying, by March 31, 2011, \$3 158 400 for administrative and computer support. Under a technological infrastructure harmonization agreement, it also committed to paying the Centre de services partagés du Québec (CSPQ) \$98 525 in 2010.

Finally, the Board is also committed to paying \$610 644 in the next fiscal years to certain suppliers of professional services.

Amounts payable over the next 5 fiscal years are:

	2010	2011	2012	2013	2014
MESS	\$1 579 200	\$1 579 200			
CSPQ	98 525				
Other	548 996	19 648	\$12 000	\$10 000	\$10 000
Total	\$2 226 721	\$1 598 848	\$12 000	\$10 000	\$10 000

14. CONTINGENCY

The Board and Attorney General of Québec are involved in a lawsuit for \$3 million, initiated in December 1988. When these financial statements were prepared the Board was unable to determine the outcome of this dispute and, consequently, no provision was posted in the books in this regard.

15. RELATED PARTY TRANSACTIONS

An amount of \$9 608 158 (2008: \$10 152 251) for administrative and data processing support services supplied by the MESS and the CSPQ is included in expenses for professional services and capital assets.

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Board is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Board did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. COMPARATIVE FIGURES

Certain figures for 2008 were reclassified to comply with the presentation adopted for 2009.

RÉGIE DU BÂTIMENT DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Régie du bâtiment du Québec (Board) were prepared by management, which is responsible for their preparation and presentation, the significant judgments and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. The in-house auditing service carried out periodic checks to ensure that internal controls are properly, consistently and uniformly applied by the Board. The Board recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Board's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and the expression of his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Michel Beaudoin
President-CEO

Robert Généreux
Vice-president Finance and Administrative

Québec, May 28, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie du bâtiment du Québec as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Board management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Board's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 28, 2009

RÉGIE DU CINÉMA
(R.S.Q., c. C-18.1)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Examination fees:		
Film classification requests	\$1 154 835	\$1 384 675
Licence applications	79 996	88 564
Licences	934 054	1 046 255
Video material monitoring	10 328 200	11 474 701
Interests	1 187 468	2 232 319
Other	350	280
	<u>13 684 903</u>	<u>16 226 794</u>
EXPENSES		
Salaries and fringe benefits	3 282 301	3 052 237
Rent	439 587	445 925
Printing services	152 966	156 727
Transportation and communication	444 493	625 049
Amortization of capital assets	101 878	121 736
Professional and administrative services	472 623	429 355
Materials and supplies	66 848	57 020
Maintenance and repairs	47 665	51 182
	<u>5 008 361</u>	<u>4 939 231</u>
EXCESS OF REVENUES OVER EXPENSES	8 676 542	11 287 563
OPENING CUMULATED SURPLUS	<u>68 766 731</u>	<u>57 479 168</u>
CLOSING CUMULATED SURPLUS	<u><u>\$77 443 273</u></u>	<u><u>\$68 766 731</u></u>

The notes are an integral part of the financial statements.

RÉGIE DU CINÉMABALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$78 154 402	\$69 053 984
Accounts receivable and accrued interest	490 561	784 831
	<u>78 644 963</u>	<u>69 838 815</u>
Capital assets (Note 4)	<u>353 146</u>	<u>360 574</u>
	<u><u>\$78 998 109</u></u>	<u><u>\$70 199 389</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$222 734	\$186 954
Provisions for vacation time	352 347	299 294
Amount owing to the Gouvernement du Québec	322	319
Revenues collected in advance	549 776	547 652
	<u>1 125 179</u>	<u>1 034 219</u>
Provision for sick leave (Note 5)	<u>429 657</u>	<u>398 439</u>
	1 554 836	1 432 658
CUMULATED SURPLUS (Note 6)	<u>77 443 273</u>	<u>68 766 731</u>
	<u><u>\$78 998 109</u></u>	<u><u>\$70 199 389</u></u>
COMMITMENTS (Note 7)		

The notes are an integral part of the financial statements.

On behalf of the Régie,
Charles Bélanger, Chairman
Jean-Pierre Gagnon, Director of Administration

RÉGIE DU CINÉMA

NOTES TO THE FINANCIAL STATEMENTS for the year ended March 31, 2009

1. CONSTITUTION AND PURPOSE

The Régie du cinéma (Régie) is a body established by the *Cinema Act* (R.S.Q., c. C-18.1) to:

- classify films;
- regularly publish information on the films classified using means it considers appropriate;
- periodically hold consultations on film classification;
- issue, renew, suspend or revoke exhibitors' or distributors' licences;
- supervise and monitor the sale, leasing, lending or exchange of video material, and issue filing certificates;
- supervise the administration of the Chapter on cinema control and supervision and the related regulations and inquire into its operation and compliance with it.

Under the *Income Tax Act* (R.S.C., 1985, c. 1, 5th supplement) and the *Taxation Act* (R.S.Q., c. I-3), the Régie does not pay income tax.

2. CHANGE IN ACCOUNTING POLICIES

Since April 1, 2008, at the Government's request, the Régie has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). This change did not affect the Régie's operations, cumulated surplus or comparative financial statements.

The accounting policies affected by this change in accounting framework are disclosed below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

Capital assets

Computer systems development is now presented under "Capital assets" rather than "Intangible assets".

ACCOUNTING ESTIMATE REVIEW – OBLIGATIONS RELATED TO SICK LEAVE

During the fiscal year, the Régie changed the method used to evaluate obligations related to sick leave. These obligations are now evaluated using an actuarial method based on defined-benefit breakdown. This change in accounting estimate decreased the obligation's value by \$18 172 at March 31, 2009. The impact of this change was posted prospectively to the fiscal year's results.

3. ACCOUNTING POLICIES

To prepare its financial statements, the Régie gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets and the provision for sick leave. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Régie's cash flows during the year.

RÉGIE DU CINÉMANOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**3. ACCOUNTING POLICIES (cont'd)****Revenue reporting**

Revenue is reported when services are rendered or earned, to the extent that their measurement and recovery are reasonably certain.

Interest income is recorded based on the number of days cash was held during the fiscal year.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method as follows:

Office furniture and equipment	5 years
Computer equipment	3 years
Leasehold improvements	10 years
Computer systems development	5 years

When market conditions show that a capital asset no longer contributes to the Régie's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The decline in capital asset values are posted to the fiscal year's results. No recovery is posted.

Provision for sick leave

The long-term obligations related to sick leave accumulated by employees with the right to return to the public service are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Régie lacks sufficient information to apply the accounting procedure for defined-benefit plans.

4. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net book value
Office furniture and equipment	\$130 914	\$81 344	\$49 570
Computer equipment	536 963	467 612	69 351
Computer systems development	535 571	444 676	90 895
Leasehold improvements	192 988	49 658	143 330
	<u>\$1 396 436</u>	<u>\$1 043 290</u>	<u>\$353 146</u>
			<u>\$360 574</u>

Capital asset acquisitions for the fiscal year totalled \$94 450 (\$70 890 in 2008).

RÉGIE DU CINÉMA

NOTES TO THE FINANCIAL STATEMENTS (cont'd) for the year ended March 31, 2009

5. FUTURE FRINGE BENEFITS

Pension plans

Régie staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Régie's contributions posted to operations for the fiscal year totalled \$164 828 (\$144 774 in 2008). Its liability towards these Government plans is restricted to its employer contributions.

Provision for sick leave

The Régie has a sick leave accumulation program, which leads to long-term obligations whose costs are borne by the Régie in their entirety.

Currently, this program is not capitalized to ensure these payments.

Sick leave accumulation program obligations increase as employees render services to the Régie. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

Accumulation of sick days

Sick days are generally allocated at a rate of 1 day/month for regular employees (12 days/year). For part-time employees, employees working short time or employees with flexible working arrangements, the sick leave credited each month may be a day or a fraction thereof.

Each unused sick day may be transferred and accumulated, should a specific event arise in future (retirement, employment termination, death).

Some non job classes (such as managers) are not subject to union rules and do not accumulate sick days. However, they keep those accumulated in the past until they retire, stop working or die.

Use of sick days

In cases of employment termination or death, the sick days accumulated are repaid in a single lump sum (at only at 50%), subject to a 66-day maximum.

Upon retirement, individuals can have their accumulated sick days repaid (still at 50%, subject to a 66-day maximum), or use them for pre-retirement purposes, that is, maintain the employer/employee relationship until their bank of accumulated sick days is depleted.

At March 31, the provision broke down as follows:

	2009	2008
Opening balance	\$398 439	\$423 147
Annual expenses	132 300	109 404
Benefits paid	(101 082)	(134 112)
Closing balance	\$429 657	\$398 439

RÉGIE DU CINÉMANOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009**5. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave (cont'd)***Subsequent evaluations and estimates*

The sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	2.00 to 3.25%
Discount rate	1.59 to 4.46%
Average remaining service period of active employees	2 and 9 years

6. CUMULATED SURPLUS

As stipulated in section 144.3 of the *Cinema Act* (R.S.Q., c. C-18.1), the Régie's receipts must be used to pay its obligations. Any surplus must be paid into the Consolidated Revenue Fund on the dates and according to the amounts determined by the Government.

7. COMMITMENTS

The Régie is committed, under long-term contracts ending on various dates until September 2010 to paying for administrative services and photocopier rental. Minimum future payments are:

2010	\$166 680
2011	916
	<u>\$167 596</u>

8. RELATED PARTY TRANSACTIONS

The Régie has an exchange of service agreement with the Ministère de la Culture, des Communications et de la Condition féminine. Under it, the Régie is mandated to inspect accredited bookstores in Québec and, in exchange, the Department agrees to provide the Régie with all human resource management services under its jurisdiction. This exchange is not reflected in the financial statements.

In addition to the related party transactions disclosed in its financial statements, the Régie is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Régie did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

RÉGIE DU CINÉMA

MANAGEMENT'S REPORT

The financial statements of the Régie du cinéma (Régie) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. Management carries out periodic audits to ensure that the Régie's internal monitoring is adequate, ongoing and applied consistently.

The Régie recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Régie's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Charles Bélanger
President

Jean-Pierre Gagnon
Director, Administration

Montréal, May 20, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Régie du cinéma (Régie) as at March 31, 2009 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of Régie management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Régie's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 2, these accounting principles have been applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 20, 2009

SERVICES QUÉBEC
(R.S.Q., c. S-6.3)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2009

	2009	2008
REVENUES		
Gouvernement du Québec contribution	\$51 575 299	\$44 565 800
Management fees		
- Ministère des Services gouvernementaux	7 350 670	4 240 399
- Other related parties under joint control	12 413 281	3 276 520
Services of the Registrar of Civil Status (Note 5)	16 560 418	
Other	302 903	6 817
	<u>88 202 571</u>	<u>52 089 536</u>
EXPENSES		
Salaries and fringe benefices	50 135 700	28 156 004
Transportation and communications services	9 745 724	4 621 198
Professional and administrative services	16 705 735	15 883 988
Maintenance and repairs	772 070	315 236
Rent	8 542 940	4 179 743
Material and supplies	1 743 313	590 040
Interest on long-term debt	377 551	254 069
Interest and bank charges	152 894	50 173
Amortization of capital assets	4 490 199	2 229 937
Loss on write-off of capital assets	39 930	21 375
Doubtful accounts	30 406	
	<u>92 736 462</u>	<u>56 301 763</u>
DEFICIENCY OF REVENUES OVER EXPENSES	(4 533 891)	(4 212 227)
OPENING CUMULATED (DEFICIT) SURPLUS	<u>(835 225)</u>	<u>3 377 002</u>
CUMULATED DEFICIT BEFORE TRANSFER	(5 369 116)	(835 225)
Transfer of part of the Gouvernement du Québec's contribution to eliminate the cumulated deficit (Note 14)	<u>5 369 116</u>	
CLOSING CUMULATED DEFICIT		<u>\$(835 225)</u>

The notes are an integral part of the financial statements.

SERVICES QUÉBECBALANCE SHEET
March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$334 449	\$9 515
Advance to the Consolidated Revenue Fund, interest-free, no encashment terms	676 571	10 574 278
Accounts receivable (Note 6)	18 774 077	5 997 351
Gouvernement du Québec receivable (Note 7)	428 346	1 153 330
Prepaid expenses	74 357	46 708
	<u>20 287 800</u>	<u>17 781 182</u>
Gouvernement du Québec receivable (Note 7)	575 672	1 860 658
Capital assets (Note 8)	<u>19 285 256</u>	<u>10 398 469</u>
	<u><u>\$40 148 728</u></u>	<u><u>\$30 040 309</u></u>
LIABILITIES		
Current liabilities		
Due to the Financing Fund (Note 10)	\$2 853 471	
Accounts payable and accrued liabilities (Note 11)	11 339 784	\$12 092 273
Provision for vacation time	5 964 061	2 932 864
Deferred revenue	1 640 709	1 220 724
Long-term debt repayments (Note 12)	2 167 264	1 931 936
	<u>23 965 289</u>	<u>18 177 797</u>
Deferred revenue	1 756	4 778
Long-term debt (Note 12)	6 520 805	6 781 221
Provision for sick leave (Note 13)	<u>9 620 201</u>	<u>5 911 738</u>
	<u>40 108 051</u>	<u>30 875 534</u>
EQUITY		
Gouvernement du Québec contribution (Note 14)	40 677	
Cumulated deficit		<u>(835 225)</u>
	<u>40 677</u>	<u>(835 225)</u>
	<u><u>\$40 148 728</u></u>	<u><u>\$30 040 309</u></u>
COMMITMENTS (Note 15)		
SUBSEQUENT EVENT (Note 18)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Jean Leclerc, President
Gilles Demers, Administrator

SERVICES QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Deficiency of revenues over expenses	\$(4 533 891)	\$(4 212 227)
Items not affecting cash position:		
Amortization of capital assets	4 490 199	2 229 937
Transfer of deferred revenue	(3 022)	(3 110)
Loss on deletion of capital assets	<u>39 930</u>	<u>21 375</u>
	----- (6 784) -----	----- (1 964 025) -----
Change in assets and liabilities related to operations:		
Accounts receivable	(9 179 615)	2 409 360
Prepaid expenses	247 739	75 517
Gouvernement du Québec receivable	2 009 970	906 350
Accounts payable and accrued liabilities (Note 16)	(2 804 331)	(609 906)
Provision for vacation time	1 521 186	341 645
Deferred revenue	302 330	1 201 196
Provision for sick leave	<u>2 068 620</u>	<u>901 834</u>
	----- (5 834 101) -----	----- 5 225 996 -----
Cash flows (used for) from operating activities	<u>(5 840 885)</u>	<u>3 261 971</u>
INVESTMENT ACTIVITIES		
Cash flows for investment activities :		
Capital asset acquisitions (Note 16)	<u>(7 941 672)</u>	<u>(3 810 283)</u>
FINANCING ACTIVITIES		
Cash flows from the integration of the activities of the Registrar of Civil Status (Note 4)	3 509 215	
Long-term debt increase (Note 16)		5 813 427
Long-term debt repayment	<u>(2 152 902)</u>	<u>(1 060 805)</u>
Cash flows from financing activities	<u>1 356 313</u>	<u>4 752 622</u>
(DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS	(12 426 244)	4 204 310
OPENING CASH AND CASH EQUIVALENTS	<u>10 583 793</u>	<u>6 379 483</u>
(DEFICIENCY) CLOSING CASH AND CASH EQUIVALENTS (Note 16)	<u><u>\$(1 842 451)</u></u>	<u><u>\$10 583 793</u></u>

The notes are an integral part of the financial statements.

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

Services Québec, a legal person within the meaning of the Civil Code of Québec, was established under section 1 of the *Act respecting Services Québec* (R.S.Q., c. S-6.3), which came into effect on May 2, 2005, to offer citizens and businesses throughout Québec a single window for easier access to public services.

Services Québec finances its activities through revenues from the fees, commissions and honoraria it receives under agreements or orders-in-council, revenues from the goods and services it offers and other receipts.

Under section 2 of its incorporating legislation, Services Québec is an agent of the State and, as such, does not pay Québec or Canadian income taxes.

2. ACCOUNTING POLICIES

Use of estimates

For the purposes of the preparation of its financial statements, Services Québec relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management established estimates and assumptions are the service life of capital assets and provisions for vacation time and sick leave. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and amortized over their service life using the straight-line method as follows:

– Leasehold improvements	5 years
– Data processing equipment	3 years
– Office equipment	5 years
– Audiovisual, exhibition and photography equipment and material	5 years
– Software and licence	5 years
– Computer and other development	5 years
– Leasehold improvements held pursuant to a capital lease	5 years

Capital assets under development are amortized once they are completed and put into operation.

When economic conditions indicate that a capital asset is no longer contributing to Services Québec's ability to provide services or the value of future economic benefits linked to the capital asset is less than its net book value, its cost is reduced to reflect the decrease in its value. Net losses in value in capital assets are charged against the results of the fiscal year. No recovery is recognized.

Lease agreements

The lease agreements to which the entity is a party as a lessee and through which substantially all of the benefits and risks linked to the property are transferred to it are recorded as capital leases and are included in the capital assets and long-term debt. The earned cost under the capital leases represents the present value of the minimum payments required pursuant to the lease.

All of the other lease agreements are recorded as operating leases and the attendant leasing costs are recorded as expenses during the fiscal year in which they occur.

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Deferred revenues**

The amounts collected allocated to projects not carried out or for services not rendered at the end of the fiscal year are carried forward and recorded as revenues in the fiscal year in which the projects are carried out and the services are rendered.

Gouvernement du Québec contribution reporting

Contributions slated for the purchase of capital assets are deferred and posted to revenues using the same method as for the amortization of the capital assets acquired.

Unappropriated contributions are posted to revenues when received or receivable, if the amount can be reasonably be estimated and its reception is relatively certain.

Revenue reporting

Revenues from management fees and other income are posted when there is convincing evidence of the existence of an agreement, that the service was rendered or the good delivered, that its price has been, or can be, determined and the recovery is reasonably certain.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that Services Québec lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The long-term obligations stemming from sick leave accumulated by the employees are now evaluated on an actuarial basis by means of a simplified estimating method that relies on the most probable hypotheses determined by the government, which are re-evaluated each year. The corresponding liabilities and expenses that result therefrom are accounted for on the basis of the method of acquisition of these fringe benefits by the employees, i.e. according to the accumulation and use by the employees of sick days.

Cash and cash equivalents

Cash and cash equivalents include cash items, the advance to the Consolidated Revenue Fund and the amount due to the Financing Fund.

3. CHANGES IN THE ACCOUNTING POLICIES

Since April 1, 2008, Services Québec has established its financial statements using the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). It previously used the CICA handbook for the private sector. This change has no impact on the results and cumulated deficit of Services Québec.

The accounting conventions affected by the change of authoritative accounting pronouncements are described below.

Financial instruments

Information on financial instruments is no longer required since the relevant standards are not applicable according to generally accepted accounting principles in the public sector. This modification has no impact on the measurement of assets and liabilities.

Capital assets

Computer development and software and licences are now presented under the item "Capital assets" rather than "Intangible assets."

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. CHANGES IN THE ACCOUNTING POLICIES (cont'd)

ADJUSTMENT OF THE ACCOUNTING ESTIMATE

Provision for sick leave

Services Québec has modified during the fiscal year its method of evaluating obligations in respect of sick leave credits. These obligations will from now on be evaluated according to an actuarial method that takes in account the breakdown of accrued benefits. This change in the accounting estimate reduced by \$372 408 the value of the obligation as at March 31, 2009. The impact of this change has been recorded prospectively in the results for the fiscal year.

4. INTEGRATION OF THE ACTIVITIES OF THE REGISTRAR OF CIVIL STATUS

Pursuant to Bill 49, the Act to amend the *Act respecting Services Québec and other legislative provisions*, assented to on December 13, 2007, the Registrar of Civil Status in the Ministère de la Justice and the members of his staff employed on April 1, 2008 became, without further ado, members of the staff of Services Québec. The assets and liabilities of the Fonds de l'état civil and the attendant rights and obligations were transferred, without further ado, to Services Québec.

Below is the opening balance sheet that was integrated into Services Québec:

BALANCE SHEET

At April 1st,
2008

ASSETS

Current assets

Cash on hand	\$3 509 215
Accounts receivable	3 597 111
Prepaid expenses	275 388
	<u>7 381 714</u>

Capital assets

2 279 569

\$9 661 283

LIABILITIES

Current liabilities

Accounts payable and accrued liabilities	\$983 981
Deferred revenue	117 655
Provision for vacation time	1 510 011
	<u>2 611 647</u>

Provision for sick leave

1 639 843

4 251 490

EQUITY

Gouvernement du Québec contribution

5 409 793

\$9 661 283

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. SERVICES OF THE REGISTRAR OF CIVIL STATUS

	<u>2009</u>
Requests for certificates	\$13 799 516
Name changes	146 939
Attestations	422 547
Belated registrations and filiations	83 795
Electronic data transmission	1 923 265
Other	184 356
	<u>\$16 560 418</u>

6. ACCOUNTS PAYABLE

	<u>2009</u>	<u>2008</u>
Ministère des Services gouvernementaux	\$15 528 659	\$4 443 050
Secrétariat du Conseil du trésor – pay equity	43 000	43 000
Ministère de la Sécurité publique	105 203	113 332
Revenu Québec	120 953	654 078
Other jointly-controlled related parties	2 800 063	711 278
Other	176 199	32 613
	<u>\$18 774 077</u>	<u>\$5 997 351</u>

7. GOUVERNEMENT DU QUÉBEC RECEIVABLE

The Gouvernement du Québec receivable for provisions for sick leave and vacation time does not bear interest. The terms and conditions of encashment are:

2010	\$428 346
2011	290 112
2012	97 516
2013	58 894
2014	58 894
2015 and thereafter	70 256
	<u>1 004 018</u>
Minus: short-term portion	428 346
	<u>\$575 672</u>

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. CAPITAL ASSETS**

	2009		2008	
	Cost	Accumulated deficit	Net	Net
Leasehold improvements	\$6 645 247	\$1 428 595	\$5 216 652	\$1 580 266
Data processing equipment	3 462 820	1 987 394	1 475 426	977 377
Office equipment	2 510 869	1 136 208	1 374 661	1 586 019
Audiovisual, exhibition and photography equipment and material	41 281	11 097	30 184	38 440
Software and licence	616 133	203 041	413 092	384 903
Computer development *	8 025 702	1 373 228	6 652 474	2 916 000
	<u>21 302 052</u>	<u>6 139 563</u>	<u>15 162 489</u>	<u>7 483 005</u>
Held pursuant to capital leases				
Leasehold improvements	5 755 684	1 632 917	4 122 767	2 915 464
	<u>\$27 057 736</u>	<u>\$7 772 480</u>	<u>\$19 285 256</u>	<u>\$10 398 469</u>

* Computer development projects totalling \$2 376 112 (2008: \$1 198 067) are under way and have not been amortized.

9. OWING TO THE CONSOLIDATED REVENUE FUND

Under Order-in-Council 222-2006, dated March 29, 2006, the Gouvernement du Québec authorized one or more advances up to a maximum of \$6 000 000 from the Financing Fund. These advances bear interest at the National Bank of Canada's prime rate and mature on March 31, 2011. At March 31, 2009, this interest rate was 2.50% and the balance was zero.

10. DUE TO THE FINANCING FUND

Under Order-in-Council 1065-2008, dated November 5, 2008, the Gouvernement du Québec authorized an \$11 636 500 credit line with the Financing Fund. This credit line bears interest at the rate of one-month bankers' acceptances plus 0.3% and will mature on December 31, 2009. As at March 31, 2009, the balance used stands at \$2 853 471 and the interest rate is 0.95%.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Suppliers and accrued expenses	\$4 419 728	\$3 109 086
Salaries and fringe benefits	1 561 257	1 094 795
Centre de services partagés du Québec	2 382 099	5 945 975
Société immobilière du Québec	2 537 496	891 437
Ministère des Services gouvernementaux		17 228
Other jointly-controlled related parties	439 204	1 033 752
	<u>\$11 339 784</u>	<u>\$12 092 273</u>

SERVICES QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**12. LONG-TERM DEBT**

	2009	2008
Borrowing from the Financing Fund, at a rate of 4.45% repayable in bi-annual payments of \$709 686, maturing December 1, 2011	\$3 945 445	\$5 149 072
Borrowing from the Ministère des Services gouvernementaux, interest-free, repayable at the rate used to amortize assets acquired	101 725	372 911
	4 047 170	5 521 983
Obligations pursuant to capital leases with the Société immobilière du Québec in the amount of \$5 755 684, at fixed rates ranging from 4.28% to 4.70%, repayable in monthly instalments of \$87 327, maturing between June 30, 2011 and August 31, 2022.	4 640 899	3 191 174
	8 688 069	8 713 157
Minus: Portion maturing within one year	2 167 264	1 931 936
	<u>\$6 520 805</u>	<u>\$6 781 221</u>

Capital payments to be made over the next five fiscal years are:

	Other debts	Capital leases	Total
2010	\$1 308 610	\$858 654	\$2 167 264
2011	1 365 163	897 646	2 262 809
2012	1 373 397	843 238	2 216 635
2013		685 776	685 776
2014		440 749	440 749
2015 and thereafter		914 836	914 836
	<u>\$4 047 170</u>	<u>\$4 640 899</u>	<u>\$8 688 069</u>

13. FUTURE FRINGE BENEFITS**Retirement plans**

Services Québec staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or the Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

Service Québec's contributions charged to the year-end statement totalled \$2 206 431 (2008: \$1 232 640). Its liability towards this Government plan is restricted to its employer contributions.

SERVICES QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**13. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave**

	2009	2008
Opening balance	\$5 911 738	\$5 009 904
Annual expenses	3 366 466	1 391 294
Benefits paid	(2 084 951)	(489 460)
Transfers ¹	2 426 948	
Closing balance	<u>\$9 620 201</u>	<u>\$5 911 738</u>

- 1 The Secretariat of the Conseil du trésor assumes transfers in respect of provisions for sick leave. This operation stems from the transfer of employees from the Registrar of Civil Status and the Bureaux de la publicité des droits in the Ministère des Ressources naturelles et de la Faune as at April 1, 2008.

Description

Services Québec has a sick leave accumulation program, which engenders long-term obligations whose costs Services Québec fully assumes.

The program is not now subject to capitalization to cover payment.

The obligations of the sick leave accumulation program are increasing as the employees render services to Services Québec. The value of this obligation is established by means of a method that breaks down the cost of this program over the duration of the active careers of the employees.

Accumulation of sick days

Regular employees usually receive one sick day per month (12 days per year). The monthly sick leave credit for part-time employees, reduced-time employees or employees with flexible work arrangements may be one day or a fraction of a day.

Each unused day is transferable and can be accumulated in the future until a specific event occurs, i.e. retirement, termination of employment or death. Certain job classes are not subject to union rules, e.g. managers. Sick days are not, therefore, accumulated. The individuals in these job classes nonetheless keep the sick leave banked in the past, until they retire, their employment is terminated or they die.

Use of sick days

In the event of termination of employment or death, the banked sick leave is reimbursed in a single payment but only at the 50% rate, subject to an overall maximum of 66 days.

Upon retirement, the individuals also have the choice of being reimbursed for their accumulated sick days, again at the 50% rate, subject to an overall maximum of 66 days, but they choose, above all, after authorization, to use their accumulated sick days in early retirement, i.e. by maintaining their employment one day at a time until their banked sick leave has been exhausted.

Subsequent evaluations and estimates

The sick leave accumulation program has been updated, based, in particular, on the following long-term estimates and economic assumptions as at March 31, 2009:

Indexation rate	Between 2% and 4.35%
Capitalization rate	Between 0% and 5.43 %
Average remaining service period of active employees	10 years

SERVICES QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**14. GOUVERNEMENT DU QUÉBEC CONTRIBUTION**

	<u>2009</u>
Contribution from the integration of the activities of the Registrar of Civil Status (note 4)	\$5 409 793
Transfer as at March 31, 2009 to eliminate the cumulated deficit	<u>(5 369 116)</u>
Closing balance	<u>\$40 677</u>

15. COMMITMENTS**Operating-lease contracts**

Commitments for operating-lease contracts, falling due at various dates until March 2014, pertain primarily to photocopier rental and break down as:

2010	\$123 722
2011	108 893
2012	95 905
2013	89 518
2014	<u>5 543</u>
	<u>\$423 581</u>

Professional service contracts

Commitments for professional service contracts total \$4 052 140 for the coming fiscal year and \$131 253 for years following, expiring on different dates until December 2012.

Shared services agreement

A commitment in respect of a shared services agreement with the Centre de services partagés du Québec pertaining to the information technologies stands at \$4 645 572 for the next fiscal year and the same amount for the subsequent fiscal year.

16. CASH FLOWS

Cash and cash equivalents are shown in the statement of cash flows and include the following amounts disclosed in the balance sheet:

	<u>2009</u>	<u>2008</u>
Cash	\$334 449	\$9 515
Advance to the Consolidated Revenue Fund	676 571	10 574 278
Due to the Financing Fund	<u>(2 853 471)</u>	
(Shortfall) Cash and cash equivalents	<u>\$ (1 842 451)</u>	<u>\$10 583 793</u>

This fiscal year, capital assets were acquired for an amount of \$2 127 814 (2008: \$1 067 290) in consideration for long-term debts with the Société immobilière du Québec. No intangible asset was financed this fiscal year (2008: \$0). The item "Accounts payable and accrued liabilities" included capital asset acquisitions totalling \$2 772 160 (2008: \$1 704 299).

Interest paid during the fiscal year totalled \$377 551 (2008: \$226 134).

SERVICES QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**
March 31, 2009

17. RELATED PARTY TRANSACTIONS

In 2007-2008, the Ministère des Services gouvernementaux assumed certain expenses in the amount of \$438 326 for material and human resources services for Services Québec. This operation was recognized at exchange value, which is the amount of the consideration established and accepted by the related parties, i.e. zero. This situation did not recur in 2008-2009.

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, Services Québec is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. Services Québec did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. SUBSEQUENT EVENT

Pursuant to an agreement now being negotiated, Services Québec will sell to the Centre de services partagés du Québec (CSPQ), retroactive to April 1, 2009, at a price equivalent to their book value, the assets in the “Computer equipment” and “Software and licences” categories. The assets used in respect of the activities of the Registrar of Civil Status are excluded from this agreement.

The CSPQ will from now on acquire and maintain this type of equipment in respect of which Services Québec will lease the use from the CSPQ.

19. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SERVICES QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of Services Québec were prepared by the management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

Services Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management performs its financial reporting duties, and reviews the financial statements. It is assisted by the auditing committee whose members do not belong to management. This committee meets with management and the Auditor General, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited Service Québec's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Pierre Roy
President-CEO

Lise Cossette
Director, Financial Resources

Québec, July 3, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Services Québec as at March 31, 2009 and the statements of operations and cumulated deficit and cash flows for the period then ended. These financial statements are the responsibility of Services Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Services Québec as at March 31, 2009, and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the changes in accounting policies resulting from the adoption of accounting principles for the public sector, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 3, 2009

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
(R.S.Q., c. D-8.2)

STATEMENT OF INCOME
for the year ended December 31, 2008

	2008	2007 (restated)
REVENUES (Note 5)		
Service delivery (Note 20)	\$12 771 590	\$13 323 111
Sales	4 681 865	6 196 898
Rent	371 679	1 365 380
Management income (Note 20)	1 171 011	1 134 159
Investment income (Note 6)	1 499 318	2 494 765
Income from commitments	14 790	21 064
Other income	85 933	100 275
	<u>20 596 186</u>	<u>24 635 652</u>
EXPENSES (Note 5)		
Services to contractors	9 053 972	9 169 150
Salaries and fringe benefits	3 621 545	4 041 179
Purchases	3 008 363	2 956 244
Maintenance and repairs	1 274 297	1 197 737
Electricity	321 806	766 984
Taxes, licences and permits	257 068	709 421
Rental costs	149 738	304 490
Staff-related expenses	224 753	180 033
Insurance	195 366	260 748
Communications	132 476	177 278
Advertising	130 319	140 432
Office expenses	39 904	56 506
Road equipment	586 343	1 178 394
Doubtful accounts (collection)	225 328	(86 658)
Amortization of capital assets	200 682	164 243
Professional fees	662 714	558 330
Studies and market development	163 910	147 096
Loss on sale of capital assets	53	13 915
Bank charges	43 867	51 599
Interest charges	22 218	5 493
Other expenses	48 806	16 312
	<u>20 363 528</u>	<u>22 008 926</u>
OPERATING EARNINGS	232 658	2 626 726
OTHER EXPENSES		
Permanent depreciation in investments	7 500	196 772
Change in fair value of assets held for transaction purposes	191 950	517 043
Change in fair value of assets designated for transaction purposes	1 550	44 036
Share in results of satellite corporation		17 200
NET EARNINGS (Note 5)	<u><u>\$31 658</u></u>	<u><u>\$1 851 675</u></u>

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**COMPREHENSIVE INCOME AND CUMULATED DEFICIT**
for the year ended December 31, 2008

	<u>2008</u>	<u>2007</u> (restated)
COMPREHENSIVE INCOME		
Net earnings	<u>\$31 658</u>	<u>\$1 851 675</u>
Other comprehensive income items (Note 14):		
Unrealized (loss) gains on investments available for sale	(4 401 317)	270 192
Reclassification of statement of operations for gains on transfer of investments available for sale	<u>(220 392)</u>	<u>(1 896 434)</u>
	<u>(4 621 709)</u>	<u>(1 626 242)</u>
Comprehensive income	<u><u>\$(4 590 051)</u></u>	<u><u>\$225 433</u></u>
CUMULATED DEFICIT		
Opening balance		
Previously established balance	\$(55 500 424)	\$(57 353 717)
Adjustment of preceding fiscal years stemming from the correction of an error (Note 4)	<u>(102 395)</u>	<u>(67 615)</u>
Restated balance	(55 602 819)	(57 421 332)
Net earnings	31 658	1 851 675
Initial effect of adoption of accounting standards for financial instruments		(3 162)
Gouvernement du Québec remittance		<u>(30 000)</u>
Closing balance	<u><u>\$(55 571 161)</u></u>	<u><u>\$(55 602 819)</u></u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
BALANCE SHEET
 as at December 31, 2008

	2008	2007 (restated)
ASSETS		
Current assets		
Cash on hand	\$693 418	\$2 048 853
Short-term investments (Note 9)	3 404 968	
Long-term investments maturing in the short term (Note 9)	3 550 665	182 804
Accounts receivable (Note 7)	4 020 646	5 581 595
Inventories (Note 8)	272 838	238 932
Prepaid expenses	1 511	23 742
	<u>11 944 046</u>	<u>8 075 926</u>
Investments (Note 9)	6 831 565	16 458 111
Capital assets (Note 10)	1 024 308	959 312
Assets in the form of accrued benefits (Note 16)	<u>211 875</u>	<u>195 345</u>
	<u>8 067 748</u>	<u>17 612 768</u>
	<u><u>\$20 011 794</u></u>	<u><u>\$25 688 694</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$4 516 021	\$5 631 042
Holdbacks on contracts	<u>139 246</u>	<u>111 074</u>
	<u>4 655 267</u>	<u>5 742 116</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 13)	69 825 000	69 825 000
Contributed surplus	5 719 284	5 719 284
Cumulated deficit	(55 571 161)	(55 602 819)
Cumulated other comprehensive income items (Note 14)	<u>(4 616 596)</u>	<u>5 113</u>
	<u>15 356 527</u>	<u>19 946 578</u>
	<u><u>\$20 011 794</u></u>	<u><u>\$25 688 694</u></u>
CONTINGENCIES (Note 22)		
COMMITMENTS (Note 23)		

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
 Michel Garon, Director
 Raymond Thibault, Director

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESSTATEMENT OF CASH FLOWS
for the year ended December 31, 2008

	2008	2007 (restated)
OPERATING ACTIVITIES		
Net earnings	\$31 658	\$1 851 675
Items not affecting liquid assets:		
Depreciation of capital assets	200 682	164 243
Loss on sale of capital assets	53	13 915
Permanent loss in value on investments	7 500	196 772
Gains on transfer of investments available for sale (Note 6)	(220 392)	(1 896 434)
Increase in net asset for accrued pension benefits	(16 530)	(2 337)
Change in fair value of assets held for transaction purposes	191 950	517 043
Change in fair value of assets designated for transaction purposes	1 550	44 036
Share in the results of the satellite corporation		17 200
Change in non-cash elements related to operations (Note 15)	299 610	(682 396)
Cash flows from operating activities	496 081	223 717
INVESTMENT ACTIVITIES		
Bonds maturing in the short term		1 526 097
Acquisition of investments	(10 231 061)	(12 282 860)
Proceeds from sale of investments	8 482 461	8 419 734
Acquisition of assets intended for sale		(265 225)
Revenues from transfer of assets intended for sale		2 950 000
Contribution to assets intended for sale		256 633
Acquisition of capital assets	(401 796)	(441 869)
Proceeds from sale of capital assets	7 352	48 044
Contribution to capital assets	291 528	139 427
Cash flows stemming from investment activities	(1 851 516)	349 981
NET (DECREASE) INCREASE IN CASH	(1 355 435)	573 698
OPENING CASH	2 048 853	1 475 155
CLOSING CASH	\$693 418	\$2 048 853

The notes are an integral part of the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS December 31, 2008

1. CONSTITUTION, GOALS AND PURPOSE

The Société de développement de la Baie-James (Corporation), whose shares are all held by the Gouvernement du Québec, was established under the *James Bay Region Development Act* (R.S.Q., c. D-8.2) to promote the territory's sustainable economic and other development, and natural resource harvesting, other than hydroelectric. It may initiate, support and participate in projects targeting these goals. Its mission also includes developing territory under municipal jurisdiction for development and land use planning purposes. Under federal and provincial legislation, the Corporation does not pay federal or provincial income tax. However, it does pay provincial tax on capital.

2. NEW GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

On January 1, 2008, the Corporation adopted Chapters 1535, "Capital Disclosures," 3031, "Inventories," 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation." Chapter 1535 seeks to inform users about the financial statements on the entity's capital and the manner in which it is managed. Chapter 3031 prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent accounting in expenses, including any depreciation up to the net realizable value. Chapters 3862 and 3863 replace Chapter 3861, "Financial Instruments – Disclosure and Presentation," and modify and broaden the requirements with respect to disclosure. Chapters 3862 and 3863 attach greater importance to disclosure, thus enabling the users of financial statements to assess the nature and scope of risks stemming from the financial instruments to which the Corporation is exposed and the manner in which it manages risks.

Given that Chapters 1535, 3862 and 3863 are confined to the disclosure of additional information, there is no impact on the results of the Corporation. As for Chapter 3031, it has not had any impact on the financial statements of the Corporation.

3. ACCOUNTING POLICIES

ACCOUNTING POLICIES IN EFFECT

Accounting estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Inventories

Inventories are evaluated according to the lesser of cost or market method (cost or net realizable value). Cost is determined according to the first in, first out method.

Investments in a satellite corporation

The Corporation records its investments at consolidation value when its share in an issuing corporation's voting shares allows it to exercise significant influence over this satellite corporation's financial and administrative decisions.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

3. ACCOUNTING POLICIES (cont'd)**ACCOUNTING POLICIES IN EFFECT (cont'd)****Financial instruments***Categories*

Assets available for sale include all non-derivative financial assets designated available for sale or not classified in the following categories.

Loans and accounts receivable do not include debt securities.

Assets held for transaction purposes are assets that the Corporation had acquired primarily for short-term resale and include cash on hand. This category also includes assets that do not meet the required criteria but that the Corporation decided to irrevocably designate as held for transaction purposes.

Investments held to maturity are non-derivative financial assets, other than loans and accounts receivable, whose payment is determined or able to be determined and which mature on a set date and which the Corporation has the specific intention and ability to keep until maturity.

Other financial liabilities include non-derivative financial liabilities that classified in the category financial liabilities held for transaction purposes.

Classification of the Corporation

The Corporation has established the following classifications:

- cash on hand and subscription warrants (Note 9) are classified as financial assets held for transaction purposes and accounts receivable as well certain obligations of the government and public corporations (Note 9) have been irrevocably designated for transaction purposes;
- the advance to a satellite corporation, the non-convertible debentures of private corporations and the notes receivable (Note 9) are classified as loans and claims;
- the common shares of public corporations and a private-sector corporation (Note 9) are irrevocably designated as assets available for sale;
- certain obligations of the government and other public sector bodies (Note 9) are classified as investments held until their maturity date;
- accounts payable, expenses due and accrued and holdbacks on contracts are classified as other financial liabilities.

Initial measurement

Financial instruments are recognized at their fair value the date of the transaction. Transaction costs are posted to net results.

Subsequent measurement

Assets available for sale are measured at their fair value with the exception of common shares in private corporations, which are measured at cost in this category. Unrealized gains and losses resulting from their re-measurement at fair value are posted other comprehensive income items until these gains or losses are realized or a financial asset's decline in value is considered permanent. When an asset available for sale is transferred, the gain or loss cumulated to comprehensive income is reclassified under investment income in the statement of operations. Moreover, if this financial asset undergoes a loss of value, the latter is also reclassified on the income statement under the item "permanent decline in value of investments."

Loans and accounts receivable, investments held to maturity and other financial liabilities not held for transaction purposes are measured at cost after amortization using the effective interest rate method, where applicable. Interest calculated using the effective interest rate method is presented in the statement of operations under investment income or interest charges.

Assets held for transaction purposes, including derivatives, are measured at their fair value, and the gains and losses resulting from their re-measurement at fair value are posted to net results.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd) December 31, 2008

3. ACCOUNTING POLICIES (cont'd)

ACCOUNTING POLICIES IN EFFECT (cont'd)

Financial instruments (cont'd)

Fair value

The fair value is the amount of the consideration agreed on by parties with jurisdiction acting freely under fully competitive conditions. These values are determined using measurement methods such as realization at the current interest rate for future cash flows and the main stock market share prices. Further, the Corporation will perform certain measurements using current measurement methods.

Financial assets' permanent decline in value

For financial assets other than those held for transaction purposes and loans and accounts receivable, the Corporation assesses whether there is an objective indication that these assets have depreciated. If there is such an indication, the amount that can be recovered on the assets is calculated. If it is lower than their book value, a loss for depreciation is posted to the statement of operations.

For loans and accounts receivable, a provision for doubtful debts is posted when necessary.

Capital assets

Capital assets are recorded at cost minus contributions from third parties and amortized over their estimated service life using the straight-line method as follows:

Buildings and improvements to buildings owned	
for rental purposes	5, 10 and 20 years
Modular homes	10 years
Furniture, fixtures, equipment and infrastructures	3 and 5 years
Computer hardware and vehicles	3 years

The Corporation regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Revenue reporting

Service deliveries, sales and management income

Revenue from service delivery, sales and management income are posted when the following conditions have been met:

- There is convincing evidence that an agreement exists;
- Delivery has occurred or the service has been rendered;
- The selling price has been determined or can be determined;
- Recovery is reasonably certain.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

3. ACCOUNTING POLICIES (cont'd)**ACCOUNTING POLICIES IN EFFECT (cont'd)****Revenue reporting (cont'd)***Rental income*

The Corporation reports its basic rental costs using the straight-line method over the duration of the rental contracts. Surplus rent reported over amounts receivable under rental contracts is shown as rent receivable in the balance sheet. Certain rental contracts include conditions requiring tenants to reimburse a proportional share of property taxes and shared costs. These amounts are reported over the period in which the related expenses are incurred. Expenses are reimbursed on a monthly basis based on the amount estimated at the beginning of the fiscal year. Any difference between the amount reimbursed and the amount reported as rental income is posted to rent receivable or payable.

Investment income and revenue from commitments

Investment operations are recognized the date of the operation and the resulting income is recognized using the accrual method. Interest income is measured based on the number of days the investment is held in a fiscal year using the effective interest rate method. Dividends are measured as of the date they are declared. Gains and losses on the transfer of investments are determined using the average cost method.

Pension plan

The cost of the pension plan is determined by actuarial calculation and the plan is capitalized using contributions determined in accordance with the accumulated benefit method. Pension costs are recorded under results and represent the sum of the following:

- The cost of pension benefits granted in exchange for services rendered by employees during the fiscal year;
- Interest charges on the accumulated benefit obligation and estimated yield on plan assets. To calculate the estimated yield on plan assets, the latter are measured at fair value;
- Amortization of the net cumulative actuarial gains and losses, unconsolidated and higher than 10% of the accumulated benefits obligation or of the fair value of plan assets, whichever is higher as calculated using the straight-line method over the average estimated duration of the active career of the group of employees participating in the plan (16 years in 2007).

Cash flows

The Corporation's policy consists in presenting bank balances including bank overdrafts whose balances often fluctuate between an overdraft and available funds under cash and cash equivalents.

FUTURE CHANGES IN ACCOUNTING POLICIES

In the coming fiscal year, the Corporation will apply the Canadian Institute of Chartered Accountants (CICA) Handbook's new recommendations concerning the new Chapter 3064, "Goodwill and Intangible Assets," which replaces Chapters 3062, "Goodwill and Other Intangible Assets," and 3450, "Research and Development Costs." This new chapter establishes the accounting, evaluation and disclosure standards applicable to goodwill and intangible assets, including internally generated intangible assets. This chapter will apply to the financial statements for fiscal years opened starting October 1, 2008. Management is of the opinion that there will be no significant impact on the financial statements from the standpoint of the application of these new standards.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

4. ADJUSTMENT OF PRECEDING FISCAL YEARS STEMMING FROM THE CORRECTION OF AN ERROR

The Corporation claimed input tax credits (ITC) and input tax rebates (ITR) that were ineligible in previous fiscal years. It therefore received notices of assessment from the tax authorities. This correction, applied retrospectively, increased (reduced) the following items on the financial statements:

	2007
RESULTS	
Service delivery	\$2 677
Maintenance and repairs	36 229
Staff-related expenses	662
Communications	566
Net earnings	\$(34 780)
BALANCE SHEET	
ASSETS	
Accounts receivable	\$2 677
LIABILITIES	
Accounts payable and accrued liabilities	\$105 072
Cumulated deficit	\$102 395

5. NET EARNINGS BY ACTIVITY

	2008			2007
	Revenues	Expenses	Other expenses	Net earnings (loss)
				Net earnings (loss) (restated)
Head office	\$191 866	\$1 454 468		\$(1 262 602)
Services	13 758 308	12 778 270		980 038
Economic development	1 353 633	1 026 830	\$201 000	125 803
Real estate	367 942	347 057		20 885
Hotel	4 924 437	4 756 903		167 534
	<u>\$20 596 186</u>	<u>\$20 363 528</u>	<u>\$201 000</u>	<u>\$31 658</u>
				<u>\$1 851 675</u>

The Corporation records its revenues and expenses by activity sector as follows:

Head office activities

- Management fees earned
- Interest earnings
- Gain or loss on transfer of capital assets
- Interest expenses
- Expenses related to the Matagami and Chibougamau offices
- Expenses related to administrative services, human resources and data processing
- Expenses related to the board of directors and the presidency office
- Communication expenses
- Airport immovables assistance program (PAIA)

Service activities

- Management of infrastructures

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

5. NET EARNINGS BY ACTIVITY (cont'd)**Economic development activities**

- Mining claims management
- Management and income investments
- Gain or loss on investments
- Economic development projects
- Expenses related to the economic development and investment

Real estate activities

- Building operations

Hotel activities

- Management of Auberge Radisson
- Operation of km 381 Rest Stop

6. INVESTMENT INCOME

	2008	2007
Gains realized on transfer of investments available for sale	\$220 392	\$1 896 434
Interest income on loans and debts	118 990	54 812
Interest income on investments held until their maturity date	116 708	1 881
Interest income on assets designated for transaction purposes	158 156	206 112
Interest income on assets designated for transaction purposes	61 730	105 950
Gains realized on the disposal of mining properties	435 381	
Other investment income	387 961	229 576
	<u>\$1 499 318</u>	<u>\$2 494 765</u>

7. ACCOUNTS RECEIVABLE

	2008	2007 (restated)
Assets held for transaction purposes		
Hydro-Québec ¹	\$2 847 316	\$4 478 323
Ministère des Transports ¹	263 397	395 945
Other	1 262 966	835 280
	<u>4 373 679</u>	<u>5 709 548</u>
Allowance for doubtful accounts	<u>(353 033)</u>	<u>(127 953)</u>
	<u>\$4 020 646</u>	<u>\$5 581 595</u>

1 Entity under joint control

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008**7. ACCOUNTS RECEIVABLE (cont'd)**

An analysis of the age of accounts receivable can be broken down as follows:

	2008		
	Gross value	Loss of value	Net value
Age of accounts receivable			
Not overdue	\$3 839 799	\$30 112	\$3 809 687
Overdue 0 to 30 days	94 518		94 518
Overdue 31 to 60 days	28 879		28 879
Overdue 60 to 90 days	74 752	40 358	34 394
Overdue for over 90 days	335 731	282 563	53 168
	<u>\$4 373 679</u>	<u>\$353 033</u>	<u>\$4 020 646</u>
	2007		
	Gross value	Loss of value	Net value
Age of accounts receivable			
Not overdue	\$5 278 775		\$5 278 775
Overdue 0 to 30 days	197 373		197 373
Overdue 31 to 60 days	6 461		6 461
Overdue 60 to 90 days	3 014		3 014
Overdue for over 90 days	223 925	\$127 953	95 972
	<u>\$5 709 548</u>	<u>\$127 953</u>	<u>\$5 581 595</u>

The change in the provision for doubtful accounts can be broken down as follows:

	2008	2007
Opening balance	\$127 953	\$280 494
Loss of value recorded	225 328	248
Striking off	(248)	(65 914)
Reversal of a provision		(86 875)
Closing balance	<u>\$353 033</u>	<u>\$127 953</u>

8. INVENTORIES

	2008	2007
Petroleum products	\$229 165	\$181 697
Other	43 673	57 235
	<u>\$272 838</u>	<u>\$238 932</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

9. INVESTMENTS

	2008	2007
Short-term investments		
Assets designated for transaction purposes		
Government bonds and the bonds of other public-sector bodies bearing interest ranging from 4.05% to 4.50% (effective rates of 1.34% to 4.25%) and with a face value of \$1 481 000	\$1 522 952	
Guaranteed investment certificate of a financial institution bearing interest at 3.55%, with a face value of \$1 853 000	1 882 016	
	<u>\$3 404 968</u>	
Long-term investments maturing in the short term		
Loans and accounts receivable		
Portion of the non-convertible debentures of private corporations bearing interest ranging from 12.476% to 12.634%	\$38 889	
Portion maturing in the short term of a note receivable from an employee bearing interest at 4.00%, payable by instalments of \$327 every two weeks	5 616	
Note receivable, payable by annual instalments of \$16 312, interest-free and maturing in 2009	16 312	\$16 312
	<u>60 817</u>	<u>16 312</u>
Assets held for transaction purposes		
Subscription warrants of public corporations	148	166 492
Assets designated for transaction purposes		
Government bonds and the bonds of other public-sector bodies bearing interest at 4.75% (effective rate of 4.25%) and at a variable rate and with a face value of \$537 900	547 105	
Investments held until their maturity date		
Government bonds and the bonds of other public-sector bodies bearing interest ranging from 3.65% to 6.85% (effective rate of 3.90% to 4.04%) and with a face value of \$2 900 500	2 942 595	
	<u>\$3 550 665</u>	<u>\$182 804</u>

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008**9. INVESTMENTS (cont'd)**

	2008	2007
Long-term investments		
Investment in a satellite corporation (33% participation) 99 parts of Camp 257 S.E.C. at consolidation value, minus a permanent decline in value on investments of \$196 772	\$1	\$1
Advance bearing interest at 8.75% reimbursable primarily from net earnings realized by the satellite corporation (loans and accounts receivable)	185 921	185 921
	185 922	185 922
Assets designated available for sale		
Common shares of public companies	5 129 587	8 738 652
Common shares in a private corporation		150 000
	5 129 587	8 888 652
Loans and accounts receivable		
Non-convertible debenture of a public corporation bearing interest at 12.00% and maturing in 2010	250 000	
Non-convertible private corporation debentures bearing interest at 11.25% to 12.634% and maturing in 2015	914 111	600 000
Note receivable from an employee bearing interest at 4.00%, payable by instalment of \$327 every two weeks and maturing in 2018	63 725	
Commercial paper receivable, payable in annual payments of \$16 312, interest-free and maturing in 2009		16 312
	1 227 836	616 312
Assets held for transaction purposes		
Subscription warrants and call options on the shares of public corporations maturing up to May 28, 2013	51 750	83 383
Assets designated for transaction purposes		
Government bonds and the bonds of other public-sector bodies bearing interest at 4.10% to 6.50% and at variable rates (effective rates of 4.20% to 5.36%), maturing up until 2040 and with a face value of \$3 573 600, disposed of in 2008.		2 530 435
Public company bonds bearing interest at 3.95% to 4.17% (effective rates of 3.87% to 4.30%) maturing up to 2011 and with a face value of \$232 000.	236 470	1 200 857
	236 470	3 731 292
Investments held to maturity		
Government bonds and the bonds of other public-sector bodies bearing interest at 3.65% to 6.85% (effective rates of 3.90% to 4.04%) with a face value of \$2 900 500 and maturing up until 2009		2 952 550
	\$6 831 565	\$16 458 111

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008**10. CAPITAL ASSETS**

	2008			
	Cost	Contributions ⁽¹⁾	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	3 713 491	529 345	\$2 703 023	481 123
Modular homes	1 222 381	630 634	484 444	107 303
Furniture and fixtures	321 093	114 489	178 301	28 303
Computer hardware	356 011		297 847	58 164
Machinery and equipment	1 569 029	947 803	407 310	213 916
Vehicles	3 677 320	3 370 334	242 516	64 470
	<u>\$17 525 928</u>	<u>\$12 188 179</u>	<u>\$4 313 441</u>	<u>\$1 024 308</u>

	2007			
	Cost	Contributions ⁽¹⁾	Accumulated depreciation	Net
Land	\$71 029			\$71 029
Air terminal	6 595 574	\$6 595 574		
Buildings and improvement to buildings owned for rental purposes	3 676 591	529 345	\$2 649 424	497 822
Modular homes	1 218 994	630 634	462 624	125 736
Furniture and fixtures	308 089	114 489	170 942	22 658
Computer hardware	289 623		279 537	10 086
Machinery and equipment	1 397 512	889 242	337 847	170 423
Vehicles	3 411 310	3 137 367	212 385	61 558
	<u>\$16 968 722</u>	<u>\$11 896 651</u>	<u>\$4 112 759</u>	<u>\$959 312</u>

- (1) The contributions received from the James Bay Energy Corporation, Hydro-Québec, Municipalité de Baie James and the federal government for capital assets are posted to reduce the cost of these contributions. In 2008, the Corporation collected \$291 528 in contributions (2007: \$139 427).

11. MINING PROPERTIES

In 2007, the Corporation concluded an agreement for the possible sale of a royalty and its rights and interests in a mining property located in the territory of James Bay. This agreement contains commitments that the buyer must realize after December 31, 2008. Should the agreement be carried out in the coming years, the Corporation will realize additional gains on the disposition of this property and this royalty up to a maximum amount of \$751 563. The mining properties have been devalued in the past.

12. BANK BORROWING

The Corporation has an authorized bank borrowing of \$4 000 000. This bank borrowing bears interest at the prime rate and is renegotiable on April 30, 2009. At December 31, 2008, the interest rate was 3.5% (2007: 6.0%) and the balance was zero.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008**13. CAPITAL STOCK**

	<u>2008</u>	<u>2007</u>
Authorized:		
10 000 000 common shares with a par value of \$10 each.		
Issued and paid up:		
6 982 500 common shares	<u>\$69 825 000</u>	<u>\$69 825 000</u>

The Corporation's shares belong to the public domain and are assigned to the Minister of Finance.

14. CUMULATED OTHER COMPREHENSIVE INCOME ITEMS

	<u>2008</u>	<u>2007</u>
Opening balance	\$5 113	
Initial effect of adopting accounting standards for financial instruments		\$1 631 355
Other comprehensive income items	<u>(4 621 709)</u>	<u>(1 626 242)</u>
Closing balance	<u>\$(4 616 596)</u>	<u>\$5 113</u>

15. CASH FLOWS

The change in non-cash items related to operations is:

	<u>2008</u>	<u>2007</u> (restated)
Accounts receivable	\$1 560 949	\$286 062
Inventories	(33 906)	(32 648)
Prepaid expenses	22 231	(20 534)
Accounts payable	(1 277 836)	(760 392)
Holdbacks on contracts	<u>28 172</u>	<u>(154 884)</u>
	<u>\$299 610</u>	<u>\$(682 396)</u>

At December 31, 2008, the item accounts payable and expenses payable includes capital assets acquisitions representing \$343 626 (2007: \$180 811).

The interest paid during the year ended December 31, 2008 totalled \$274 (2007: \$5 493).

16. PENSION PLAN**Plan description**

The Corporation offers its employees a defined-benefit retirement plan based on years of service and average salary at career-end. The Corporation's policy involves maintaining its contributions at a level that allows it to pay benefits. It assesses its defined-benefit obligations and the fair value of plan assets for accounting purposes annually at December 31. The last actuarial valuation dates from December 31, 2007 and the next actuarial valuation will be produced on December 31, 2010.

Retirement obligations vis-à-vis accrued benefits are established using actuarial calculations based on management's most probable hypotheses and extrapolated using the most recent actuarial valuation.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008**16. PENSION PLAN (cont'd)****Total cash payments**

Total cash payments for the pension plan in 2008 comprise defined-benefit plan contributions in the amount of \$163 676 (2007: \$155 586).

Defined-benefit plan

The following table compares the defined-benefit obligation and fair value of plan assets for fiscal years ending December 31, 2008 and December 31, 2007:

	2008	2007
Obligation in the form of accrued benefits	\$(2 760 537)	\$(3 223 835)
Fair value of plan assets	3 088 085	3 418 018
Capitalization situation	327 548	194 183
Unamortized net actuarial (loss) gain	(115 673)	1 162
Assets in the form of accrued benefits	\$211 875	\$195 345

Composition of plan assets

Category of assets	2008	2007
Debt-like securities	49,1%	48,7%
Debt instruments	50,9	51,3
Total	100,0%	100,0%

The average weighted percentages resulting from mortgages used to determine the defined-benefit obligation and the cost of Corporation benefits are:

	2008	2007
Defined-benefit obligations		
Actualization rate	7,0%	5,5%
Remuneration increase rate	3,5	3,5
Benefit cost		
Actualization rate	7,0%	5,5%
Rate of return foreseen for plan assets	5,5	6,0
Remuneration increase rate	3,5	3,5

Other information related to the defined-benefit plan is:

	2008	2007
Annual expenses	\$147 146	\$153 249
Employer contributions	163 676	155 586
Employee contributions	68 398	67 327
Benefits paid	35 287	35 287

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008
17. FINANCIAL INSTRUMENTS

The fair value of short-term financial instruments is close to cost because of their close maturity date. The following chart shows the book value and fair value of the Corporation's long-term financial instruments:

	2008		2007	
	Book value	Fair value	Book value	Fair Value
LONG-TERM INVESTMENTS				
Assets designated available for sale				
Common share in public companies ²	\$5 129 586	\$5 129 586	\$8 738 652	\$8 738 652
Common shares in a private corporation ⁴			150 000	
	<u>\$5 129 586</u>	<u>\$5 129 586</u>	<u>\$8 888 652</u>	<u>\$8 738 652</u>
Loans and accounts receivable				
Unconvertible private corporation debentures ³	\$953 000	\$953 000	\$600 000	\$600 000
Non-convertible debenture of a public corporation ³	250 000	250 000		
Commercial paper receivable ³	85 653 ¹	84 445	32 624 ¹	29 089
Cannot be estimated ⁴	185 922		185 922	
	<u>\$1 474 575</u>	<u>\$1 287 445</u>	<u>\$818 546</u>	<u>\$629 089</u>
Assets held or designated for transaction purposes				
Government, other public sector and public company bonds ⁵	\$783 575	\$783 575	\$3 731 292	\$3 731 292
Public company warrants ²		51 898		249 875
	<u>\$783 575</u>	<u>\$835 473</u>	<u>\$3 731 292</u>	<u>\$3 981 167</u>
Investments held until maturity				
Government bonds and the bonds of other public-sector bodies ⁵	\$2 942 595	\$2 955 824	\$2 952 550 ¹	\$2 942 174

- 1 Category of investments whose book value is higher than their fair value; management plans to recover the book value.
- 2 The fair value of public company shares is established on the basis of the closing bid price the date of the balance sheet. The fair value of public company warrants is established using the Black & Scholes method.
- 3 The fair values of unconvertible private corporation debentures and the commercial paper receivable were determined using the discounted future cash flow method at interest rates of 12.5% for the non-convertible debentures of private corporations and 8.0% and 4.0% for notes receivable, which represents the market rates the date of the balance sheet for similar investments.
- 4 The fair value of these financial instruments cannot reasonably be estimated, given the lack of markets for this type of investment. Consequently, the financial instrument is recognized at cost.
- 5 The fair value of government bonds and the bonds of other public-sector bodies and public corporations is established according to the closing bid price on the date of the balance sheet.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation is exposed to various financial risks resulting both from its operations and investment activities. Management is responsible for managing financial risks.

The Corporation concludes contracts for its financial instruments, including financial derivatives, for speculation in the context of its investment activities.

Financial risks

The main financial risks to which the Corporation is exposed and the risk management policies are detailed below.

Exchange risk

The Corporation is exposed to exchange risk due to cash and long-term investments in US dollars. At December 31, 2008, financial assets in US dollars totalled 1 123 930 (December 31, 2007: US dollars 2 310 887).

The Corporation does not use financial derivatives to reduce its exchange risk exposure.

On the date of the balance sheet, the exchange rate on the US dollar is 1.21803 (2007: 0.98746).

A 10% appreciation in the Canadian dollar in relation to the US dollar, on the date of the balance sheet, would have reduced the cash on hand, long-term investments and the combination of other items in comprehensive income by \$136 898 (2007: \$228 191). This analysis assumes that all of the other variables, in particular stock market prices, remain constant. The comparative analysis has been conducted according to the same assumptions.

A 10% weakening in the Canadian dollar in relation to the US dollar, on the date of the balance sheet, would have the equivalent but opposite impact on cash on hand, long-term investments, and the combination of other items in comprehensive income.

Interest rate risk

The advance to the satellite corporation, unconvertible debentures, government and other public sector bodies and public company bonds bear interest at fixed rates, thereby exposing the Corporation to the risk of changes in fair value resulting from interest rate fluctuations. Financial assets at fixed rates represent \$8 589 400 (2007: \$7 469 763).

The bank borrowing bears interest at a variable rate, thereby exposing the Corporation to a cash flow risk resulting from interest rate variations.

The Corporation does not use financial derivatives to reduce its exposure to interest rate risk.

Credit risk

As a rule, the book value in the Corporation's balance sheet of financial assets exposed to credit risk, after deduction of the applicable provisions for losses, represents the maximum amount of the credit risk to which the Corporation is exposed.

Client accounts:

The corporation's credit risk comes mainly from its client accounts. The Corporation does not require a guarantee from its clients. Its policy consists in running a credit check on all clients. Each client's balance is analyzed in an ongoing manner. This way the Corporation's exposure to doubtful accounts debts is minimal.

Advance to a satellite corporation and unconvertible debentures:

The balance of the advance to a satellite corporation and unconvertible debentures and encashment of the related interest are analyzed every quarter. At December 31, 2008, management deemed that the Corporation's credit risk related to its financial assets was low, and, as a result, no provision was posted for a permanent decline in value.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**Financial risks (cont'd)**Liquid asset risk

Liquid asset management seeks to maintain sufficient cash and cash equivalents and ensure that the Corporation has sources of funding in the form of bank borrowings of a sufficient authorized amount. The Corporation establishes budgetary forecasts every quarter to ensure that it has the funds required to meet its obligations.

The Corporation's liabilities, i.e. accounts payable and accrued liabilities as well as holdbacks on contracts, mature during the next fiscal year.

19. INFORMATION ON CAPITAL

The Corporation defines its capital as the shareholder's equity, which can be broken down as follows:

	<u>2008</u>	<u>2007</u>
Shareholder's equity		
Share capital	\$69 825 000	\$69 825 000
Contributed surplus	5 719 284	5 719 284
Cumulated deficit	<u>(55 571 161)</u>	<u>(55 602 819)</u>
	<u>\$19 973 123</u>	<u>\$19 941 465</u>

Pursuant to the James Bay Region Development Act, the dividends paid by the Corporation are set by the shareholder, i.e. the Québec Minister of Finance, who determines the terms of payment. The dividends declared, as the case may be, will be deducted from retained earnings for the fiscal year during which they were declared.

Pursuant to its enabling legislation, the Corporation must obtain the authorization of the government to undertake certain borrowings and acquisitions and to dispose of property. The Corporation is not subject to any other requirement in respect of capital by an external source.

The Corporation manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

20. RELATED PARTY TRANSACTIONS

The Corporation delivers power transmission infrastructure management services that can be broken down as follows:

	<u>2008</u>	<u>2007</u> (restated)
Related parties under common control:		
Hydro-Québec	\$11 353 364	\$11 929 551
Ministère des Transports	1 388 794	1 375 080
Other	<u>29 432</u>	<u>18 480</u>
	<u>\$12 771 590</u>	<u>\$13 323 111</u>

Hydro-Québec assumes the maintenance and operating costs of the road linking Matagami to Radisson and Chisasibi and the Trans-Taiga Road and the La Grande-Rivière and Fontanges airport. A management committee comprising representatives of Hydro-Québec and the Corporation manages these assets.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
December 31, 2008

20. RELATED PARTY TRANSACTIONS (cont'd)

The Corporation collects management income on the services that it delivers, which can be broken down as follows:

	2008	2007
Related parties under common control:		
Hydro-Québec	\$962 356	\$924 614
Ministère des Transports	130 395	128 946
Centre régional de la santé et des services sociaux de la Baie-James	51 402	51 148
Other	26 858	29 451
	<u>\$1 171 011</u>	<u>\$1 134 159</u>

In addition to the related party transactions disclosed earlier, which are measured at exchange value, the Corporation is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Corporation did not do business with these related parties other than during the normal course of operations and under normal business conditions. These operations are not separately disclosed in the financial statements.

21. NON-MONETARY TRANSACTIONS

The Corporation sold mining properties for \$422 125 and received by way of compensation the shares of public corporations. These transactions have been recorded at the market value of the shares received. They generated a profit of \$422 125, which was recognized in the results.

22. CONTINGENCIES

As a signatory to the James Bay and Northern Québec Agreement, the Corporation has been subject to certain lawsuits related to the latter's application. Management feels that these lawsuits are unfounded and, consequently, no provision has been posted in this regard.

On February 26, 1993, Ressources MSV inc., now Ressources MSV 2007 inc. (MSV), the Société and Westminer Canada Ltd. (Westminer) signed a compensation agreement to indemnify Westminer against all future environmental claims related to mine sites. The future reclaiming of the mine sites was estimated in 1994 at \$4 300 000 by a firm of engineering consultants and a fund was set up for this purpose. Westminer and MSV paid this amount. The amounts paid are held in trust and not included in the financial statements. In 1999, a reassessment estimated site restoration costs to be \$3 212 050. The total amount of restoration work done since the creation of the environment fund is \$1 302 232. The value of the funds was \$4 584 986 at December 31, 2008. On January 28, 2009, the Superior Court of Québec accepted the motion of Campbell Resources Inc. and MSV to issue an initial order pursuant to the Companies' Creditors Arrangement Act. Campbell Resources Inc. and MSV intend to take advantage of provisions in the Act to prepare and present an arrangement with their creditors. Based on the opinions received from a consulting engineering firm in September 2005 and subject to the updating of the restoration plan, corporation management believes that the funds accumulated are sufficient to proceed with restoration work to come. This agreement also states that the Corporation may have to contribute 50% to any deficit or benefit 50% from any surplus once the restoration has been done.

The Corporation owns land requiring decommissioning. This work began in fiscal 2005 and the Corporation carried out work costing \$400 454, \$119 558 of which falls in this fiscal year (2007: \$96 521). At December 31, 2008, the balance of the provision representing the total cost of work for the coming fiscal year totalled \$62 600. This work includes a new study in 2009 to determine what to do next under the restoration plan.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**
December 31, 2008

22. CONTINGENCIES (cont'd)

The Corporation has signed three agreements with Transport Canada under the Airport Infrastructure Assistance Plan for a minimum of \$637 131 for the acquisition of moveable equipment. Two agreements, expiring in 2009 and 2011, envisage the Corporation committing to operating the said airport for a 10-year period. Should this condition not be respected, the Corporation will be obliged to reimburse an amount determined on the basis of the remaining duration of these agreements. As for the third agreement, expiring in 2010, it calls for the Corporation to operate the aforesaid airport for two years. Should the Corporation fail to fulfil this condition, it could be obliged to pay the Government of Canada, in the form of damages, the total amount paid to it under this agreement. At December 31, 2008, the total eventual liability resulting under these agreements is \$260 829. The Corporation's objective is to comply with the aforesaid agreements until they expire.

23. COMMITMENTS

The Corporation has committed itself under a lease for the rental of office space expiring December 31, 2013, to pay a total of \$153 760 \$, i.e. \$30 752 a year. It has also committed itself under another lease for the rental of office space expiring December 31, 2018, to pay a total of \$778 000 to a related party under common control (Hydro-Québec), i.e. \$77 800 a year.

Under an order-in-council of January 10, 1994, the Gouvernement du Québec transferred lands located in the James Bay territory to the Corporation. The conditions of this order-in-council require that, in the event of the subsequent sale of these lands, the profits be remitted to the Gouvernement du Québec.

24. COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to comply with the presentation adopted in 2008.

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**MANAGEMENTS' REPORT**

The financial statements of the Société de développement de la Baie-James were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. It also involves guaranteeing that the financial information presented elsewhere in the annual report complies with that of the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls and has implemented an internal auditing program to provide reasonable assurance that assets are safeguarded and that accounting records constitute an adequate basis for objective, reliable financial statements that accurately represent the Corporation's financial position and operations. The Corporation recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors is responsible for examining and approving the financial statements and for overseeing the manner in which management performs its financial reporting duties.

The Auditor General of Québec has audited the Corporation's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Raymond Thibault, P. Eng.
President and CEO

Matagami, February 19, 2009

SOCIÉTÉ DE DÉVELOPPEMENT DE LA BAIE-JAMES**AUDITORS' REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société de développement de la Baie-James as at December 31, 2008 and the statements of income, comprehensive income and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, February 19, 2009

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
(R.S.Q., c. S-10.002)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009	2008 Restated (Note 3)
FINANCIAL MEASURES		
REVENUES		
Gouvernement du Québec subsidies (Note 4)	\$62 681 966	\$56 871 690
Interest on investments, loans repayable assistance	2 693 058	2 489 288
Amounts recovered on investment and assistance repayable under financial assistance programs (Note 5)	1 017 349	738 720
Loan fees and loan guarantees (Note 6)	561 816	428 251
Tax credit management fees	1 534 832	1 442 244
Cinema management honoraria	131 400	118 450
Other revenue	20 583	41 624
	<u>68 641 004</u>	<u>62 130 267</u>
EXPENSES		
Financial assistance programs (Note 7):		
Film and television productions	33 394 332	33 400 162
Music and miscellaneous	11 984 301	8 848 396
Books and edition	4 575 929	3 621 661
Art trades	3 601 727	3 922 787
International affairs	4 260 848	3 855 531
	<u>57 817 137</u>	<u>53 648 537</u>
Subsidies stemming from significant benefits conferred on clients	72 112	
Allowance for bad debts and losses (Note 8)	786 702	196 213
Loss for decline in value on asset-backed commercial papers (Note 9)		3 700 000
Administrative expenses (Note 10)	10 828 584	9 998 212
Interest on debts	18 501	55 302
	<u>69 523 036</u>	<u>67 598 264</u>
LOSS FROM MANAGEMENT OF FINANCIAL MEASURES	<u>(882 032)</u>	<u>(5 467 997)</u>
IMMOVEABLE CULTURAL PROPERTY		
REVENUES		
Gouvernement du Québec subsidies (Note 4)	2 727 643	2 556 166
Rent and other	1 687 866	1 641 508
Interest on short-term investments	67 114	73 678
	<u>4 482 623</u>	<u>4 271 352</u>
EXPENSES		
Operating and administrative expenses (Note 11)	3 457 637	3 274 339
Interest on debts	592 642	603 887
	<u>4 050 279</u>	<u>3 878 226</u>
GAIN FROM MANAGEMENT OF IMMOVEABLE CULTURAL PROPERTY	<u>432 344</u>	<u>393 126</u>
Amounts carried forward	<u>\$(449 688)</u>	<u>\$(5 074 871)</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
STATEMENT OF OPERATIONS (cont'd)
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> Restated (Note 3)
Amounts brought forward	<u>\$(449 688)</u>	<u>\$(5 074 871)</u>
INVESTMENTS		
Investment income from limited partnerships	319 432	278 186
Interest costs on long-term Gouvernement du Québec advances	<u>319 432</u>	<u>166 826</u>
GAIN ON INVESTMENTS		<u>111 360</u>
NET LOSS	<u><u>\$(449 688)</u></u>	<u><u>\$(4 963 511)</u></u>

The notes to the financial statements are an integral of these presents.

DEFICIT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> Restated (Note 3)
OPENING BALANCE		
Previously established balance	\$(3 321 989)	\$1 650 334
Restatement: adoption of public sector accounting standards	<u>(45 073)</u>	<u>(53 885)</u>
Restated opening balance	<u>(3 367 062)</u>	<u>1 596 449</u>
Net loss	<u>(449 688)</u>	<u>(4 963 511)</u>
CLOSING BALANCE	<u><u>\$(3 816 750)</u></u>	<u><u>\$(3 367 062)</u></u>

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**BALANCE SHEET**
as at March 31, 2009

	<u>2009</u>	<u>2008</u> Restated (Note 3)
ASSETS		
Cash on hand	\$8 770 684	\$4 224 378
Cash equivalents (Note 12)	6 991 360	5 000 000
Loans and other financial assistance (Note 13)	18 831 828	16 182 099
Assistance repayable (Note 7)	963 165	582 936
Accounts receivable and accrued interest	890 130	798 531
Term notes, bearing interest at 10%		234 771
Gouvernement du Québec subsidies receivable	18 458 857	22 245 815
Prepaid expenses and advances on commitments	635 897	401 384
Long-term investments (Note 14)	15 850 000	15 850 000
Non-bank asset-backed paper (Note 9)	14 594 510	14 594 510
Capital assets (Note 15)	<u>18 918 399</u>	<u>18 310 876</u>
TOTAL ASSETS	<u><u>\$104 904 830</u></u>	<u><u>\$98 425 300</u></u>
LIABILITIES		
Short-term borrowings (Note 16)	\$1 006 163	\$2 573 418
Accounts payable	2 723 559	3 517 070
Interest accrued on long-term advances from the Gouvernement du Québec	319 432	166 826
Accrued interest on long-term debts	211 180	223 185
Amounts payable under financial assistance programs	19 908 865	15 575 240
Cumulated provisions for losses on loan guarantees for business financing (Note 8)	779 643	647 749
Deferred revenue (Note 17)	30 208 648	28 256 309
Long-term Gouvernement du Québec advances (Note 18)	18 000 000	18 000 000
Long-term debts (Note 19)	<u>16 064 090</u>	<u>13 332 565</u>
	<u>89 221 580</u>	<u>82 292 362</u>
EQUITY		
Capital (Note 20)	19 500 000	19 500 000
Deficit	<u>(3 816 750)</u>	<u>(3 367 062)</u>
	<u>15 683 250</u>	<u>16 132 938</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$104 904 830</u></u>	<u><u>\$98 425 300</u></u>

The notes to the financial statements are an integral of these presents.

COMMITMENTS (Note 24)

CONTINGENCIES (Note 25)

On behalf of the Board of Directors,
Pierre Bernier
Gilles Corbeil

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008 Restated (Note 3)
OPERATING ACTIVITIES		
Net loss	\$(449 688)	\$(4 963 511)
Adjustments to determine cash flow:		
Bad debts related to interim financing of tax credits		40 823
Provision for bad debts related to assistance repayable	79 839	219 412
Allowance for bad debts and losses	786 702	196 213
Loss on the disposal of capital assets	14 622	
Significant benefits conferred on clients	68 359	
Amortization of capital assets	1 795 753	1 622 211
Revenue from long-term investment	(319 432)	(278 186)
	1 976 155	(3 163 038)
Change in non-cash items related to operating activities:		
Accounts receivable and accrued interest	(91 599)	24 238
Gouvernement du Québec subsidies receivable	3 786 958	(6 628 316)
Prepaid expenses and advances on commitments	(234 513)	48 529
Accounts payable	(40 773)	129 882
Accrued interest on long-term Gouvernement du Québec advances	152 606	7 579
Interest accrued on the long-term debt	(12 005)	(29 791)
Amounts to pay under financial assistance programs	4 333 625	(2 011 035)
Deferred revenue	1 952 339	10 872 282
	9 846 638	2 413 368
Cash flows related to operating activities	11 822 793	(749 670)
INVESTMENT ACTIVITIES		
Loans and other financial assistance	(15 040 110)	(10 812 636)
Term notes	234 771	
Non-bank asset-backed paper		(14 594 510)
Assistance repayable	(932 375)	(225 925)
Acquisition of capital assets	(3 170 636)	(2 985 352)
Long-term investments	319 432	278 186
Repayment of loans and other financing assistance	11 735 573	11 456 557
Recovery of assistance repayable	403 948	527 926
Cash flows related to investment activities	(6 449 397)	(16 355 754)
FINANCING ACTIVITIES		
Short-term borrowings	(1 567 255)	2 512 943
Long-term debts	4 601 071	
Long-term debt repayment	(1 869 546)	(1 834 571)
Cash flows related to financing activities	1 164 270	678 372
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6 537 666	(16 427 052)
OPENING CASH AND CASH EQUIVALENTS	9 224 378	25 651 430
CLOSING CASH AND CASH EQUIVALENTS (Note 21)	\$15 762 044	\$9 224 378

Capital asset acquisitions included under "Accounts payable" total \$56 578 (2008: \$809 316).

The notes to the financial statements are an integral of these presents.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. INCORPORATING STATUTE AND OBJECTIVE

The Société de développement des entreprises culturelles (SODEC) is a legal person established and governed by the *Act respecting the Société de développement des entreprises culturelles* (R.S.Q., c. S-10.002). Under the *Income Tax Act* (R.S.C. 1985, c. 1, 5th supplement) and the *Taxation Act* (R.S.Q., c. 1-3), the Société does not pay income tax.

The Société's objective is to promote and support the establishment and development of cultural enterprises, including the media, throughout Québec, and to help improve the quality of goods and services and increase their competitiveness in Québec, Canada and abroad. The Société is also responsible for recognizing works as Québec cinema based on the standards set forth in government regulations under the *Cinema Act* (R.S.Q., c. C-18.1).

The Société owns immovable cultural property acquired from the Minister of Transport in 1989. The Société may also, with the Government's authorization, acquire, restore, renovate, manage or operate buildings.

2. MAJOR ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main items subject to an estimate are the cumulated provisions for bad debts, the provision for sick leave and vacation time, and the useful life of capital assets.

For the purposes of the preparation of its financial statements, the Société relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook.

Loans and other financial assistance

Loans and other financial assistance include investments (in the form of stock purchases) the Société makes under its business financing programs. Loans or investments in projects are recorded at face value, plus accrued interest minus the cumulated provision for bad debts. The face value of loans with significant concessionary terms is discounted at the average rate for government borrowings in order to determine the value of the subsidy thus granted, which is recorded as an expense. The discount is amortized over the duration of the loan using the real interest method and is recorded as interest income.

A loan is classified doubtful when the quality of the credit has deteriorated to the point that the Société is no longer reasonably certain of recovering all capital and interest. When a loan becomes doubtful, interest income ceases to be recognized and the Société reduces its participation by posting a provision for bad debts.

Loan guarantees are shown as contingencies in the Société's financial statements. Loans resulting from the performance of loan guarantees related to a corporation's financing are posted to assets once the Société has approved the claim issued by the lending institution.

Cumulated provision and contribution for bad debts and losses

The cumulated provision for bad debts and losses is maintained at a level deemed adequate to absorb the bad debts and losses in the Société's portfolio. It is increased by the annual provision, which is posted to results, and reduced by write-offs. The cumulated provision for bad debts and losses includes specific provisions and a general provision.

Specific provisions are established for each loan. A loan's book value is rolled back to its estimated realizable value by discounting projected future cash flows.

The general provision is established for loan guarantees related to business financing. The amount of the general provision is estimated using past losses.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

2. MAJOR ACCOUNTING POLICIES (cont'd)

Cumulated provision and contribution for bad debts and losses (cont'd)

The contribution for losses is an amount cashed to absorb potential losses resulting from the loan guarantee for business financing. Should a contingency or loan guarantee become doubtful, a contribution is posted to revenue in the fiscal year in which the losses were disclosed.

Losses related to the guarantees granted under interim tax credit funding programs are refundable by the Gouvernement du Québec. Consequently, the Société does not record any provision.

Assistance repayable and cumulated provision for bad debts

Assistance repayable is financial assistance for pre-defined repayment over a minimum of two years and a maximum of five. This assistance is recorded in the balance sheet at face value minus a cumulated provision for bad debts, established by examining the probability of recovering each case of repayable assistance based on past losses. The annual change in the cumulated provision is posted to results as program expenses. Assistance repayable does not bear interest with the result that for assistance accompanied by significant advantageous conditions, the face value is discounted at the average rate for government borrowings in order to determine the value of the subsidy thus granted, which is recorded as an expense. The discount is amortized over the duration of the assistance repayable using the real interest method and is recorded as interest income.

The cumulated provision is established by examining the likelihood of recovery of each assistance repayable and in light of previous losses. The annual change in the cumulated provision is charged to the income statement as a program expense.

Long-term investments

Investments are recorded at acquisition cost. When an investment sustains a permanent decline in value, its book value is reduced to take into account this decline in value. This reduction is charged directly to the income statement for the fiscal year.

Revenues are recorded on the income statement when they are received or payable.

Capital assets

Capital assets are recorded at cost and amortized over their estimated service life in accordance with the straight-line method. The cost of restoration work includes materials and equipment, direct labour, indirect costs and interim financing costs during the work.

Restoration work	25 years
Major repairs	from 5 to 10 years
Office furniture	10 years
Equipment	5 years
Data processing equipment and software	from 4 to 7 years
Leasehold improvements	term of lease

Restoration works in progress are not depreciated.

Art works are not recorded as capital assets since it is impossible to reasonably estimate the future economic benefits stemming from such property. Their cost is charged to expenses in the fiscal year during which they are acquired.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. MAJOR ACCOUNTING POLICIES (cont'd)**Subsidies**

Subsidies are posted to revenues when received or receivable if the amount can be reasonably estimated and it is reasonably certain that it will be received.

Specific subsidies for financial assistance programs and any other project are deferred and posted to results as revenues in conjunction with related commitments.

Revenues

Recovery of investment and assistance repayable related to a pre-defined repayable obligation is posted to results when cashed or payable.

The Société recognizes its rental income when it is earned or when the services are rendered, there is convincing proof of the existence of an agreement, the price of the service rendered is determined or determinable, and recovery is reasonably certain.

Financial assistance programs

Financial assistance awarded in the form of subsidies, investments and refundable aid, other than that related to a pre-defined repayment obligation, is posted to results as program expenses in the fiscal year in which these costs are authorized and when the beneficiary has met the eligibility criteria.

If the terms and conditions governing the financial assistance are not respected, the project cancellation is recorded in the fiscal year in which the facts were disclosed.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and deposits maturing within three months of the date they were acquired.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGES IN ACCOUNTING POLICIES

At the request of the government, the Société has established its financial statements according to the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). It previously used the CICA handbook for the private sector. The Société has decided to maintain the same presentation of the financial statements. The new accounting policies have been applied retroactively with the restatement of previous fiscal years.

The accounting policies modified by this change of authoritative accounting pronouncements are described below.

The Société will henceforth apply the method of accounting for significant concessionary terms for loans and other equity positions and for assistance repayable. In this regard, a subsidy expense is recorded when the loan or assistance repayable takes effect. Moreover, interest income is recorded according to the real interest method over the duration of the loan or assistance repayable. The Société did not apply this policy previously.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

 NOTES TO THE FINANCIAL STATEMENTS (cont'd)
 March 31, 2009

3. CHANGES IN ACCOUNTING POLICIES (cont'd)

All long-term investments in limited partnerships are now recorded at cost. One of the investments was previously recorded on an equity basis while the second one, already recorded at cost, was not changed.

The equity investment has been reclassified in long-term investments. This investment was previously included under the item "Loans and other financial interests."

Art works were previously deemed to be capital assets and are now recorded as expenses.

The retroactive application of these modifications has increased (reduced) the following items:

	2009	2008
OPERATIONS		
Revenues		
Interest on investments, loans and assistance repayable	\$12 436	\$8 812
Expenses		
Subsidies stemming from significant benefits conferred on clients	72 112	
Administrative expenses – loss on the disposal of capital assets	(1 241)	
BALANCE SHEET		
Assets		
Loans and other financial assistance	8 683	8 812
Assistance repayable	(68 359)	
Accounts receivable and accrued interest	41 246	118 939
Long-term investments	(41 246)	(118 939)
Capital assets	1 241	
Equity		
Deficit	58 435	45 073

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2009	2008
SUBSIDIES GRANTED		
Financial measures		
Operations	\$3 993 791	\$3 161 339
Debt related to financial assistance programs	18 501	55 302
Financial assistance programs:		
Film and television productions	35 496 453	35 628 453
Music and miscellaneous	10 446 591	11 987 756
Books and edition	4 665 559	3 655 559
Art trades	4 008 314	4 208 314
International affairs	5 112 783	5 272 783
Specific assistance		676 314
Immovable cultural property		
Operations	1 108 900	1 108 900
Debts related to capital assets	2 703 207	3 655 280
	<u>67 554 099</u>	<u>69 410 000</u>
OPENING DEFERRED SUBSIDIES		
Financial measures:		
Financial assistance programs:		
Film and television productions	5 663 834	3 435 543
Music and miscellaneous	3 520 486	104 039
Books and edition	34 926	56 953
Art trades	294 351	13 969
International affairs	1 788 022	593 299
Specific assistance	1 713 576	1 037 262
Immovable cultural property		
Debts related to immovables	14 350 311	12 142 297
	<u>27 365 506</u>	<u>17 383 362</u>
CLOSING DEFERRED SUBSIDIES		
Financial measures		
Financial assistance programs:		
Film and television productions	(7 728 456)	(5 663 834)
Music and miscellaneous	(1 330 302)	(3 520 486)
Books and edition	(184 531)	(34 926)
Art trades	(700 938)	(294 351)
International affairs	(2 417 418)	(1 788 022)
Specific assistance	(1 713 576)	(1 713 576)
Immovable cultural property		
Debts related to immovables	(15 434 775)	(14 350 311)
	<u>(29 509 996)</u>	<u>(27 365 506)</u>
	<u>\$65 409 609</u>	<u>\$59 427 856</u>
The subsidies break down as:		
	2009	2008
Financial measures	\$62 681 966	\$56 871 690
Immoveable cultural property	2 727 643	2 556 166
	<u>\$65 409 609</u>	<u>\$59 427 856</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

**5. AMOUNTS RECOVERED ON INVESTMENTS AND ASSISTANCE REPAYABLE
UNDER FINANCIAL ASSISTANCE PROGRAMS**

	2009		2008
	Investments	Assistance repayable *	Total
Film and television productions	\$710 959	\$45 097	\$756 056
Books and edition			\$573 234
Multimedia			2 575
International affairs		261 293	18
			162 893
	<u>\$710 959</u>	<u>\$306 390</u>	<u>\$1 017 349</u>
			<u>\$738 720</u>

* These recoveries come from refundable aid not associated with a pre-defined repayable obligation.

6. LOAN FEES AND LOAN GUARANTEES

	2009	2008
Loan fees	\$140 630	
Guarantee fees related to enterprise financing	188 569	\$190 628
Guarantee fees related to interim tax credit financing	135 932	94 333
Bad debts linked to interim tax credit financing		(40 823)
Deficit of fee income over management expenses (Note 17)	96 685	184 113
	<u>232 617</u>	<u>237 623</u>
	<u>\$561 816</u>	<u>\$428 251</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

7. FINANCIAL ASSISTANCE PROGRAMS AND ASSISTANCE REPAYABLE

	2009	
	Film and television productions	Music and miscellaneous
EXPENSES – FINANCIAL ASSISTANCE PROGRAMS		
Investments – selective assistance	\$29 946 003	
Investments – corporate assistance	500 000	
Subsidies	3 256 043	\$12 074 926
Assistance repayable unrelated to predefined repayment obligations	136 000	
Provision for bad debts		70 000
Cancellations and amounts recovered	(990 504)	(183 294)
Evaluation committees	300 809	12 669
Financial assistance for the Bureau du cinéma et de la télévision	200 000	
Travelling and entertainment expenses		
Other	45 981	10 000
	<u>\$33 394 332</u>	<u>\$11 984 301</u>

	2009	
	Film and television productions	Music and miscellaneous
ASSETS – ASSISTANCE REPAYABLE		
Opening balance	\$55 000	\$380 636
Assistance repayable related to pre-defined repayment obligations granted in the year		700 000
Amounts recovered	(10 000)	(46 799)
Write-offs		(113 500)
	<u>45 000</u>	<u>920 337</u>
Significant benefits conferred on clients		(68 359)
Cumulated provision for bad debts		(290 337)
Closing balance	<u>\$45 000</u>	<u>\$561 641</u>

2009				2008
Books and edition	Art trades	International affairs	Total	Total
			\$29 946 003	\$30 469 996
			500 000	500 000
\$4 585 422	\$3 572 834	\$3 863 115	27 352 340	22 268 586
		420 125	556 125	529 075
		9 839	79 839	219 412
(9 493)		(41 522)	(1 224 813)	(1 080 076)
	9 848		323 326	322 850
			200 000	200 000
				175 018
	19 045	9 291	84 317	43 676
<u>\$4 575 929</u>	<u>\$3 601 727</u>	<u>\$4 260 848</u>	<u>\$57 817 137</u>	<u>\$53 648 537</u>
2009				2008
Books and edition	Art trades	International affairs	Total	Total
\$134 106	\$13 940	\$477 359	\$1 061 041	\$1 383 842
		232 375	932 375	225 925
(15 564)	(9 290)	(322 295)	(403 948)	(527 926)
		(12 500)	(126 000)	(20 800)
118 542	4 650	374 939	1 463 468	1 061 041
			(68 359)	
(62 500)	(3 500)	(75 607)	(431 944)	(478 105)
<u>\$56 042</u>	<u>\$1 150</u>	<u>\$299 332</u>	<u>\$963 165</u>	<u>\$582 936</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. CUMULATED PROVISION AND CONTRIBUTION FOR BAD DEBTS AND LOSSES**

	2009	2008
Opening balance	<u>\$5 038 322</u>	<u>\$5 897 368</u>
Write-offs during the year:		
Loans granted by the Société	359 355	997 602
Loans resulting from the fulfilment of loan guarantees for business financing	<u>133 274</u>	<u>57 657</u>
	492 629	1 055 259
Allowance for the year:		
Loans granted by the Société	671 515	218 020
Loans resulting from the fulfilment of loan guarantees for business financing	(16 706)	54 497
Loan guarantees for business financing	<u>131 893</u>	<u>(76 304)</u>
	786 702	196 213
Closing balance	<u><u>\$5 332 395</u></u>	<u><u>\$5 038 322</u></u>

The accumulated allowance and contribution for bad debts and losses breaks down as:

	2009	2008
Loans granted by the Société (Note 13)	\$2 224 898	\$1 912 739
Loans resulting from the fulfilment of loan guarantees for business financing (Note 13)	<u>2 327 854</u>	<u>2 477 834</u>
	4 552 752	4 390 573
Loan guarantees for business financing *	<u>779 643</u>	<u>647 749</u>
	<u><u>\$5 332 395</u></u>	<u><u>\$5 038 322</u></u>

9. NON-BANK ASSET-BACKED PAPER

As at March 31, 2009, the Société holds investments in the Canadian asset-backed commercial paper (ABCP) market that were restructured in exchange for non-bank asset-backed paper under an agreement on January 21, 2009.

The ABCP was a short-term financing instrument issued by trusts, also called “conduits,” usually with maturity dates ranging from one to three months. The ABCP was a current receivable backed by various assets such as mortgage loans receivable or consumption loans and financial assets. At the time of their acquisition by the Société, the third-party ABCP were rated R-1 (high) by the credit rating agency DBRS Limited (DBRS), the highest rating that DBRS granted for asset-backed commercial paper.

The crisis in high-risk mortgage loans in the United States triggered upheavals on the international markets that led to a liquidity crisis in the Canadian third-party ABCP market in mid-August 2007. Since August 13, 2007, the Société has been unable to obtain repayment of the amounts due under the third-party ABCP that it held when they reached their maturity date.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
9. NON-BANK ASSET-BACKED PAPER (cont'd)

Efforts to restructure third-party ABCP undertaken since August 13, 2007 led to the conclusion of the Montreal Agreement on December 24, 2008, which was subject to the approval of the decision-making authorities of the institutions concerned and the obtaining of orders-in-council. The agreement was subsequently ratified as proposed and led to an exchange of securities on January 21, 2009.

Consequently, the ABCP conduits have been replaced by three new structures in the form of trusts, called “master asset vehicles” (“MAV 1,” “MAV 2,” and “MAV 3”). MAV 1 and MAV 2 group together the transactions of ABCP conduits solely comprising synthetic and hybrid assets. MAV 3 comprises the transactions of ABCP conduits solely made up of ineligible assets and traditional assets. Through this exchange, the Société now holds MAV 2 and MAV 3 notes.

The Société records its investments at cost reduced by any permanent decline in value. It is of the opinion that as at March 31, 2009, these investments had not sustained any permanent decline in value additional to that of \$3.7 million recorded on March 31, 2008. In addition, the Société intends, in this particular instance, to hold these investments in non-bank asset-backed papers in the longer term.

As at March 31, 2009, the Société holds notes whose cost stands at \$18.3 million devalued by a durable loss in value of \$3.7 million presented at the book value of \$14.6 million (fair value of \$9.7 million).

	Cost	Permanent decline in value recorded	Book value	Fair value
Synthetic and hybrid assets	\$13 270 557	\$1 156 203	\$12 114 354	\$7 195 713
Ineligible assets	2 057 263	1 855 048	202 215	138 454
Traditional assets	2 966 690	688 749	2 277 941	2 410 994
	<u>\$18 294 510</u>	<u>\$3 700 000</u>	<u>\$14 594 510</u>	<u>\$9 745 161</u>

10. ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	\$8 167 785	\$7 822 849
Fees	231 868	158 820
Travel, representation and conventions	459 502	190 588
Rent	732 681	663 444
Insurance	42 451	39 889
Stationery and office expenses	365 738	388 172
Advertising and promotion	207 780	169 401
Loss on the disposal of capital assets	14 622	
Amortization of capital assets	510 732	462 441
Other expenses	95 425	102 608
	<u>\$10 828 584</u>	<u>\$9 998 212</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

11. IMMOVEABLE CULTURAL PROPERTY - OPERATING AND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	\$376 451	\$361 764
Fees	161 213	114 080
Travelling, representation and conventions	5 156	3 805
Taxes	339 800	345 015
Insurance	94 948	135 815
Electricity and heating	280 388	258 415
Maintenance and repairs	795 449	719 828
Stationery and office expenses	39 186	38 030
Amortization of capital assets	1 285 021	1 159 770
Other expenses	80 025	137 817
	<u>\$3 457 637</u>	<u>\$3 274 339</u>

12. CASH EQUIVALENTS

The Société held a bank acceptance recognized at cost and bearing interest at 0.72%.

13. LOANS AND OTHER FINANCIAL ASSISTANCE

	2009			2008
	Amount	Allowance for losses (Note 8)	Net amount	Net amount
Loans and debentures	\$16 506 863	\$474 685	\$16 032 178	\$13 597 887
Significant benefits conferred on clients				(8 683)
Doubtful loans and debentures:				
Loans granted by the Société	2 512 006	1 750 213	761 793	312 063
Loans resulting from the fulfilment of guarantees for business financing	4 365 711	2 327 854	2 037 857	2 280 832
	\$23 384 580	\$4 552 752	\$18 831 828	\$16 182 099

Loans totalling \$23.2 million (2008: \$20 million) are guaranteed by first and second mortgages on tangible and intangible assets, personal sureties, corporate sureties, life insurance, land mortgages and refunds of tax credits. Loans totalling \$154 318 (2008: \$597 743) do not include any guarantee.

All loans awarded by the Société bear interest at a fluctuating rate. The interest rate in effect for loans at March 31, 2009, calculated using a weighted average, is 5.43%, i.e. the prime rate plus 2.43%.

These loans, apart from doubtful loans, mature in fiscal years ending March 31:

2010	\$8 508 439
2011	827 738
2012	593 330
2013	1 498 184
2014 and after	<u>4 604 487</u>
	<u>\$16 032 178</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
14. LONG-TERM INVESTMENTS

	2009	2008
Common shares, at cost, with voting right	\$450 000	\$450 000
Participation, at devaluated cost, as a sponsor in a limited partnership whose activity is to invest in undertakings working in the field of culture. Under the agreement, the Société will continue to exist until December 31, 2009.	7 400 000	7 400 000
Participation, at cost, as a sponsor and sponsored party in a limited partnership which offers cultural undertakings specialized financing tools. The Société will continue to exist until December 31, 2011, unless it is dissolved before this time as per the agreement.	8 000 000	8 000 000
	<u>\$15 850 000</u>	<u>\$15 850 000</u>

15. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net amount	Net amount
Restoration work*	\$22 472 777	\$7 277 648	\$15 195 129	\$14 234 502
Major repairs	5 837 175	3 600 145	2 237 030	2 477 971
Office furniture	576 835	434 761	142 074	175 516
Equipment	197 731	168 404	29 327	44 154
Data processing equipment	397 191	232 484	164 707	150 774
Leasehold improvements	441 202	390 894	50 308	112 948
Software**	2 594 900	1 495 076	1 099 824	1 115 011
	\$32 517 811	\$13 599 412	\$18 918 399	\$18 310 876

The Société owns art works whose cost is \$58 749.

* Includes assets of \$645 090 recorded at cost and not amortized since they were not operational at March 31, 2009. Includes capitalized interest of \$85 924 for the fiscal year.

** Includes assets of \$168 211 recorded at cost and not amortized since they were not operational at March 31, 2009.

16. CREDIT LINES AND SHORT-TERM BORROWINGS

The Société has a \$2M credit line authorized by Gouvernement du Québec Order-in-Council with a financial institution. This credit line bears interest at the prime rate for a term not to exceed one year.

The Société is authorized by Gouvernement du Québec order-in-council to contract short-term borrowings or use its credit line for an amount not to exceed \$1.9M to keep buildings belonging to its housing stock in good condition. The borrowings may be contracted with a financial institution or the Gouvernement du Québec's Financing Fund and bear interest at a variable or fixed rate, without exceeding the prime rate, for a term that may not exceed one year.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**17. DEFERRED REVENUE**

	2009	2008
Interim financing of tax credits (Note 25)		
Opening balance	\$387 223	\$(425 167)
Contribution granted by the Gouvernement du Québec		823 686
Net amount of write-offs / receipts (disbursements) on files in default	(170 794)	172 817
Deficiency of fee earnings over management expenses	(96 685)	(184 113)
Closing balance	119 744	387 223
Deferred subsidies (Note 4)	29 509 996	27 365 506
Other deferred revenue	578 908	503 580
	<u>\$30 208 648</u>	<u>\$28 256 309</u>

18. LONG-TERM GOUVERNEMENT DU QUÉBEC ADVANCES

	2009	2008
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership up to an annual maximum equivalent to the prime rate, payable when the limited partnership winds up or no later than December 31, 2009.	\$10 000 000	\$10 000 000
Gouvernement du Québec advance, bearing interest at the rate of return on the investment in the limited partnership up to an annual maximum equal to the prime rate, payable when the limited partnership winds up or no later than December 31, 2011.	8 000 000	8 000 000
	<u>\$18 000 000</u>	<u>\$18 000 000</u>

19. LONG-TERM DEBTS

	2009	2008
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.771%, repayable in annual instalments of \$342 398, until June 3, 2014 and a final instalment of \$2 396 786 on June 3, 2014.	\$4 108 777	\$4 451 175
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.617%, repayable in annual instalments of \$416 308 until December 1, 2015 and a final instalment of \$2 081 538 on December 1, 2015.	4 579 383	4 995 691
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.654%, repaid during the fiscal year.		790 718
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.387%, repayable in annual instalments of \$41 631 until October 1, 2013.	208 154	249 784
Amounts brought forward	<u>\$8 896 314</u>	<u>\$10 487 368</u>

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
19. LONG-TERM DEBTS (cont'd)

	<u>2009</u>	<u>2008</u>
Amounts carried forward	\$8 896 314	\$10 487 368
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.323%, repayable in annual instalments of \$172 288 until October 1, 2012 and a final instalment of \$1 550 588 on October 1, 2012	2 067 451	2 239 738
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.592%, repayable in annual instalments of \$35 599 until March 31, 2016.	249 194	284 794
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.463%, repayable in annual instalments of \$35 629 until November 14, 2016.	285 035	320 665
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 4.164%, repayable in annual instalments of \$34 974 until October 1, 2013 and one instalment of \$174 874 on October 1, 2013.	314 774	
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 2.726 %, repayable in annual instalments of \$34 957 until October 1, 2013 and one instalment of \$209 744 on October 1, 2013.	349 573	
Borrowing on a note from the Gouvernement du Québec's Financing Fund, 2.726 %, repayable in annual instalments of \$390 175 until October 1, 2013 and one instalment of \$2 341 050 on October 1, 2013.	<u>3 901 749</u>	
	<u>\$16 064 090</u>	<u>\$13 332 565</u>

The payment of the principal and interest on these borrowings is guaranteed by a purchase-money security interest on the amount of the subsidy anticipated for the repayment of this borrowing.

The amounts of capital instalments to pay on long-term debts in coming fiscal years are:

2010	\$1 503 960
2011	1 503 960
2012	1 503 960
2013	2 882 260
2014	3 597 233
2015 and after	<u>5 072 717</u>
	<u>\$16 064 090</u>

20. CAPITAL

As at March 31, 1995, the capital stock of the Société générale des industries culturelles, a government agency, became the Société's capital.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

21. CASH FLOWS

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2009	2008
Cash on hand	\$8 770 684	\$4 224 378
Term deposits	6 991 360	5 000 000
	<u>\$15 762 044</u>	<u>\$9 224 378</u>

Interest paid by the Société in the fiscal year totalled \$789 975 (2008: \$848 227).
Interest encashed by the Société in the fiscal year totalled \$2 616 260 (2008: \$2 693 958)

22. FUTURE FRINGE BENEFITS**Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan for Senior Officials (PPSO) or Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$475 880 (2008: \$375 104). Its liability towards this Government plan is restricted to its employer contributions.

Provision for sick leave and vacation time

	2009			2008
	Sick leave	Vacation time	Total	Total
Opening balance	\$104 900	\$751 289	\$856 189	\$823 981
Annual expenses	230 019	708 437	938 456	780 812
Benefits paid	<u>(203 151)</u>	<u>(616 555)</u>	<u>(819 706)</u>	<u>(748 604)</u>
Closing balance	<u>\$131 768</u>	<u>\$843 171</u>	<u>\$974 939</u>	<u>\$856 189</u>

This provision is included under "Accounts payable".

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

24. COMMITMENTS

- a) The unpaid balance on commitments for loans as at March 31, 2009 totalled \$9.9M (2008: \$9.1M).
- b) The Société is committed to paying \$901 914 (2008: \$1.8M) for a contract for the maintenance and restoration of a building until November 2009.
- c) The minimum commitments under an operating lease for Société offices are \$557 545 until December 31, 2009.

25. CONTINGENCIES

- a) The Société guarantees the repayment of loans or debts contracted by firms from financial institutions for business financing and for interim funding of tax credits. The maximum amounts guaranteed are:

	<u>2009</u>	<u>2008</u>
Business financing *	\$6 416 762	\$7 462 393
Interim funding of refundable tax credits for Québec movie and TV production, production of multimedia titles, production of sound recordings, books publishing and production of shows **	<u>9 570 677</u>	<u>7 391 989</u>
	<u>\$15 987 439</u>	<u>\$14 854 382</u>

* The accumulated allowance for losses on these loan guarantees is disclosed in Note 8 of the financial statements.

** All losses related to guarantees under this program will be reimbursed by the Gouvernement du Québec.

- b) Various judicial and extrajudicial proceedings instituted by or against the Société are presently under way. According to the Société, the outcome of these cases will have no significant impact on its financial position or on the results of its operations.

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**MANAGEMENT'S REPORT**

The financial statements of the Société de développement des entreprises culturelles du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that the assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Jean Pronovost
President of the Board of Directors

Gilles Corbeil
President and Acting Chief Officer

Montréal, May 29, 2009

SOCIÉTÉ DE DÉVELOPPEMENT DES ENTREPRISES CULTURELLES**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de développement des entreprises culturelles as at March 31, 2009 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the accounting changes stemming from the adoption of public sector accounting standards, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Montréal, May 29, 2009

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
(R.S.Q., c. S-11.0102)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008
REVENUES		
Government of Canada transfers		
- Gasoline tax (Note 6)	292 761	211 237
Additional vehicle registration fees - SAAQ (Note 6)	52 424	48 424
Gouvernement du Québec contribution	132 200	
Interest on investments	8 706	17 480
	<u>486 091</u>	<u>277 141</u>
EXPENSES		
Drinking water, wastewater and local public works program	305 227	281 848
Public transit infrastructures program	93 961	14 462
Rural municipal infrastructure fund (FIMR)	1 874	547
Québec-municipalities infrastructure program (PIQM)	3 851	2 516
Mont-Tremblant development project		10 500
Administrative fees (Note 3)	2 367	2 109
	<u>407 280</u>	<u>311 982</u>
(DEFICIENCY) EXCESS REVENUES OVER EXPENSES	78 811	(34 841)
OPENING CUMULATED SURPLUS	<u>15 268</u>	<u>50 109</u>
CLOSING CUMULATED SURPLUS	<u><u>94 079</u></u>	<u><u>15 268</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
BALANCE SHEET
 as at March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	110	48
Short-term investments (Note 4)	399 897	375 767
Accounts receivable and accrued interest (Note 5)	<u>16 700</u>	<u>15 492</u>
	<u>416 707</u>	<u>391 307</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	12 161	9 762
Deferred revenue (Note 6)	305 452	365 503
Amount owing to the Gouvernement du Québec – interest-free, no terms of repayment	<u>5 015</u>	<u>774</u>
	322 628	376 039
CUMULATED SURPLUS (Note 7)	<u>94 079</u>	<u>15 268</u>
	<u><u>416 707</u></u>	<u><u>391 307</u></u>

COMMITMENTS (Note 8)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Luc Monty, President
 Marc Grandisson, Secretary

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de financement des infrastructures locales du Québec (Société) is a legal person and mandatary of the State established under the *Act respecting the Société de financement des infrastructures locales du Québec* (R.S.Q., c. S-11.0102) on December 17, 2004 to provide financial assistance to municipal bodies for infrastructure projects related to drinking water, wastewater, local roads and public transit and for infrastructure projects having an economic, urban or regional impact.

The Société's revenue comes from Government of Canada transfers, additional vehicle registration fees paid by the owners of certain motor vehicles, and a Gouvernement du Québec contribution. The additional vehicle registration fees are collected for the Société by the Société de l'assurance automobile du Québec (SAAQ).

Under federal and provincial income tax legislation, the Société does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the Société gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are additional vehicle registration fees and certain accrued expenses. Real results may differ from these estimates.

The statement of cash flows is not shown as it would not provide any additional useful information on the Société's cash flows during the year.

Revenue

Government of Canada transfers are appropriated and reported as revenues in the fiscal year in which the related program expenses are reported. The Gouvernement du Québec contribution is posted to revenues in the fiscal year to which it applies.

Additional vehicle registration fees are posted to revenue based on the period covered by the fees payable.

Other revenue is reported in the fiscal year in which the operations or facts from which it results occur, when the amount can be determined and its reception is reasonably certain.

Expenses

Expenses include the cost of goods and services obtained during the fiscal year.

Financial assistance paid to municipal bodies is reported as an expense when the facts giving rise to it occur, to the extent that it is authorized and that the beneficiaries have met eligibility criteria, where applicable.

Short-term investments

Short-term investments are posted using the lower of cost or market method.

3. ADMINISTRATIVE FEES

	2009	2008
Administrative fees	1 688	1 509
SAAQ collection fees – Additional vehicle registration fees	679	600
	<u>2 367</u>	<u>2 109</u>

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

4. SHORT-TERM INVESTMENTS

	2009	2008
Discount notes, Corporation d'hébergement du Québec, maturing in April and May 2009	289 165	234 508
Discount note, Financement-Québec, maturing in April 2009	51 162	70 217
Québec T-bill		66 342
Deposit certificate, 0.5%, maturing in April 2009	59 570	4 700
	<u>399 897</u>	<u>375 767</u>

5. ACCOUNTS RECEIVABLE AND ACCRUED INTEREST

	2009	2008
Additional vehicle registration fees receivable - SAAQ	16 586	14 475
Accrued interest on short-term investments	114	1 017
	<u>16 700</u>	<u>15 492</u>

6. DEFERRED REVENUE

Deferred revenue refers to amounts received or receivable under the agreement between Canada and Québec regarding transfer of the revenues of a portion of the federal excise tax on gasoline and an additional amount under Chapter 49 of the Statutes of Canada (2005) authorizing payments in the context of assistance measures linked to the cost of energy, home energy consumption and the mass transit infrastructure and amending other legislation as a result in order to fund municipal and local infrastructures from a sustainable development viewpoint. They also refer to additional vehicle registration fees. Variations over the fiscal year in the balance of deferred revenue are:

	2009	2008
Government of Canada transfers		
Opening balance	333 635	360 714
Government of Canada transfers	230 197	184 158
Transfers posted to revenue for the fiscal year	<u>(292 761)</u>	<u>(211 237)</u>
Closing balance	<u>271 071</u>	<u>333 635</u>
Additional vehicle registration fees - SAAQ		
Opening balance	31 868	29 482
Fees collected	54 937	50 810
Fees posted to revenue for the fiscal year	<u>(52 424)</u>	<u>(48 424)</u>
Closing balance	<u>34 381</u>	<u>31 868</u>
Deferred revenue	<u>305 452</u>	<u>365 503</u>

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

7. CUMULATED SURPLUS

As stipulated in Section 33 of the *Act respecting the Société de financement des infrastructures locales du Québec* (R.S.Q., c. S-11.0102), the monies received by the Société must be used to pay its obligations. The Société retains any surpluses.

8. COMMITMENTS**Drinking water, waste water, local public works,
Public transit infrastructure program**

The Société is committed to paying financial assistance to various municipal organizations under the Drinking water, waste water, local public works and public transit infrastructure program for respective amount of \$367 690 K at March 31, 2009 (2008: \$381 711 K) and of \$36 557 K at March 31, 2009 (2008: 15 137 K). Amounts payable in capital for the next fiscal year are:

2009-2010	367 690
Undetermined	36 557

**Rural municipal infrastructure fund (FIMR),
Québec-municipalities infrastructure program (PIQM),
Canada Strategic Infrastructure Fund (CSIF)**

The Société also committed to paying financial assistance to various municipal organizations under the FIMR, PIQM and CSIF respectively in the amount of \$226 402 K at March 31, 2009 (2008: \$153 014 K), \$92 217 K at March 31, 2009 (2008: \$95 958 K) and \$95 000 K at March 31, 2009 (2008: \$36 500 K). Amounts payable for the next five fiscal years under commitments made by the Société, and conditional on appropriations voted by the National Assembly, total:

	FIMR	PIQM	CSIF
2009-2010	6 244	3 894	2 504
2010-2011	15 985	7 990	5 229
2011-2012	18 428	8 386	6 647
2012-2013	19 469	8 803	8 138
2013-2014	20 571	9 225	8 569
2014-2015 and thereafter	145 705	53 919	63 913

9. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Société is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

10. INFORMATION ON FINANCIAL RISKS**Fair value**

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

10. INFORMATION ON FINANCIAL RISKS (cont'd)**Interest-rate risk**

The Société manages its investment portfolio in accordance with its cash requirements and to optimize its interest income.

The interest rate in effect on short-term investments for the fiscal year varies from 0.5% to 3.94% (2008: 2% to 4.98%).

11. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

MANAGEMENT'S REPORT

The financial statements of the Société de financement des infrastructures locales du Québec (SOFIL - Société) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

Société management recognizes that it is responsible for conducting its affairs in accordance with the statutes, regulations and policies governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Luc Monty
President of the Board of Directors

Marc Grandisson
Secretary of the Boards of Directors

Québec, June 8, 2009

SOCIÉTÉ DE FINANCEMENT DES INFRASTRUCTURES LOCALES DU QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société de financement des infrastructures locales du Québec (Société) as at March 31, 2009 and the statement of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of Société management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 8, 2009

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL
(R.S.Q., c. S-11.03)

STATEMENT OF OPERATIONS
for the year ended August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
REVENUES				
Gouvernement du Québec operating subsidy	\$2 767 200		\$2 767 200	\$2 751 500
Other Gouvernement du Québec subsidies (Note 5)	15 777 665		15 777 665	14 796 383
Auditorium rentals	3 847 668		3 847 668	3 473 984
Ancillary operations	4 194 986	\$4 038	4 199 024	3 956 082
Rental of office and commercial space	2 024 262		2 024 262	1 826 454
Royalties and ticket revenue	3 052 941	2 173 703	5 226 644	3 005 941
Services to producers	1 485 607		1 485 607	1 304 306
Sponsorships and publicity	578 671	38 750	617 421	575 509
Arts accessibility program (Note 6)	145 143		145 143	72 804
Financial revenue	397 025		397 025	352 631
Other revenue	926 026	320 483	1 246 509	933 184
	<u>35 197 194</u>	<u>2 536 974</u>	<u>37 734 168</u>	<u>33 048 778</u>
EXPENSES				
Salaries and fringe benefits	8 288 609	140 669	8 429 278	7 462 018
Building maintenance and repair	4 320 795		4 320 795	4 016 892
Electricity and heating	2 476 185		2 476 185	2 180 805
Equipment purchases, maintenance and repair	834 966	23 097	858 063	888 968
Professional services	854 174	568 450	1 422 624	1 141 086
Communications	1 194 395	470 352	1 664 747	1 118 361
Show operating costs	1 410 733	256 266	1 666 999	1 359 191
General administration	424 350	67 682	492 032	325 642
Insurance and taxes	6 495 834		6 495 834	6 343 360
Financial expenses	3 585 303		3 585 303	3 607 335
Amortization of capital assets	4 944 494		4 944 494	4 415 319
Arts accessibility program (Note 6)	389 606		389 606	262 821
Other expenses	200 190	22 683	222 873	47 719
	<u>35 419 634</u>	<u>1 549 199</u>	<u>36 968 833</u>	<u>33 169 517</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE SUBSEQUENT ITEM				
	(222 440)	987 775	765 335	(120 739)
DERECOGNITION OF THE FONDATION (Note 7)				
	<u>(1 500 329)</u>		<u>(1 500 329)</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES				
	<u><u>\$(1 722 769)</u></u>	<u><u>\$987 775</u></u>	<u><u>\$(734 994)</u></u>	<u><u>\$(120 739)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALSTATEMENT OF CHANGE IN FUND BALANCES
as at August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
OPENING BALANCE	\$1 964 777		\$1 964 777	\$2 085 516
Change in accounting policy Adoption of fund accounting (Note 2)	<u>(126 690)</u>	<u>\$126 690</u>		
RESTATED OPENING BALANCE	1 838 087	126 690	1 964 777	2 085 516
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>(1 722 769)</u>	<u>987 775</u>	<u>(734 994)</u>	<u>(120 739)</u>
CLOSING BALANCE	<u>\$115 318</u>	<u>\$1 114 465</u>	<u>\$1 229 783</u>	<u>\$1 964 777</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

BALANCE SHEET
as at August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
ASSETS				
Current assets				
Cash on hand	\$6 344 993		\$6 344 993	\$5 232 158
Short-term investment				1 000 000
Accounts receivable	755 506		755 506	1 187 525
Debt receivable (Note 8)	11 502		11 502	10 844
Interfund receivable, interest-free, no terms of encashment		\$1 114 465		
Gouvernement du Québec subsidies receivable (Note 9)	8 182 845		8 182 845	7 062 104
Bar inventory	36 654		36 654	36 188
Costs deferred to the arts accessibility program	109 527		109 527	177 418
Prepaid expenses	79 046		79 046	110 223
	<u>15 520 073</u>	<u>1 114 465</u>	<u>15 520 073</u>	<u>14 816 460</u>
Funds reserved for construction and retrofitting	4 465 038		4 465 038	2 487 622
Debt receivable (Note 8)	46 032		46 032	57 534
Capital assets (Note 10)	56 242 214		56 242 214	57 896 255
Gouvernement du Québec subsidies receivable (Note 9)	54 328 063		54 328 063	58 754 096
Deferred discount and issuing costs on the long- term debt				286 117
	<u>\$130 601 420</u>	<u>\$1 114 465</u>	<u>\$130 601 420</u>	<u>\$134 298 084</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALBALANCE SHEET (cont'd)
as at August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
LIABILITIES				
Current liabilities				
Deposits - Rental and ticket sales	\$2 914 372		\$2 914 372	\$3 159 865
Accounts payable and accrued liabilities (Note 11)	4 722 226		4 722 226	3 175 484
Interfund receivable, interest-free, no terms of encashment	1 114 465			
Accrued interest payable	719 797		719 797	790 662
Short-term borrowings (Note 12)	10 347 849		10 347 849	7 894 689
Instalments on the long-term debt (Note 13)	5 930 732		5 930 732	7 628 424
	<u>25 749 441</u>		<u>24 634 976</u>	<u>22 649 124</u>
Deferred Gouvernement du Québec subsidies (Note 14)	49 594 294		49 594 294	51 468 675
Long-term debt (Note 13)	<u>47 533 625</u>		<u>47 533 625</u>	<u>50 606 766</u>
	<u>122 877 360</u>		<u>121 762 895</u>	<u>124 724 565</u>
EQUITY				
Contributed surplus (Note 15)	7 608 742		7 608 742	7 608 742
Fund balance	<u>115 318</u>	<u>\$1 114 465</u>	<u>1 229 783</u>	<u>1 964 777</u>
	<u>7 724 060</u>	<u>1 114 465</u>	<u>8 838 525</u>	<u>9 573 519</u>
	<u>\$130 601 420</u>	<u>\$ 1 114 465</u>	<u>\$130 601 420</u>	<u>\$134 298 084</u>

COMMITMENTS (Note 19)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
André Provencher
Denis Piché

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

STATEMENT OF CASH FLOWS
for the year ended August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$(1 722 769)	\$987 775	\$(734 994)	\$(120 739)
Adjustments for:				
Amortization of capital assets	4 944 494		4 944 494	4 415 319
Amortization of deferred Gouvernement du Québec subsidies	(5 919 080)		(5 919 080)	(5 193 964)
Amortization of premium, discounts and commissions on long-term debt	300 405		300 405	74 750
	<u>(2 396 950)</u>	<u>987 775</u>	<u>(1 409 175)</u>	<u>(824 634)</u>
Change in non-cash items related to operations				
Accounts receivable	432 019		432 019	(265 131)
Gouvernement du Québec subsidies receivable	3 305 292		3 305 292	2 553 866
Bar inventory	(466)		(466)	9 338
Claim receivable	10 844		10 844	10 224
Costs deferred to the arts accessibility program	67 891		67 891	(109 511)
Prepaid expenses	31 177		31 177	21 697
Deposits - Rental and ticket sales	(245 493)		(245 493)	806 404
Accounts payable and accrued liabilities	1 546 742		1 546 742	(137 652)
Interfund receivable, interest-free, no terms of encashment	987 775	(987 775)		
Accrued interest payable	(70 865)		(70 865)	(46 724)
Deferred Gouvernement du Québec subsidies	4 044 699		4 044 699	3 306 885
	<u>10 109 615</u>	<u>(987 775)</u>	<u>9 121 840</u>	<u>6 149 396</u>
Cash flows used for to operating activities	<u>7 712 665</u>		<u>7 712 665</u>	<u>5 324 762</u>
INVESTMENT ACTIVITIES				
Capital asset acquisitions	<u>(3 290 453)</u>		<u>(3 290 453)</u>	<u>(2 144 822)</u>
Cash flows used for investment activities	<u>(3 290 453)</u>		<u>(3 290 453)</u>	<u>(2 144 822)</u>
Amounts brought forward	<u>\$4 422 212</u>		<u>\$4 422 212</u>	<u>\$3 179 940</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALSTATEMENT OF CASH FLOWS (cont'd)
for the year ended August 31, 2008

	Operating Fund	Production Fund	Total 2008	Total 2007
Amounts carried forward	<u>\$4 422 212</u>		<u>\$4 422 212</u>	<u>\$3 179 940</u>
FINANCING ACTIVITIES				
Change in funds reserved for construction and retrofitting	(1 977 416)		(1 977 416)	(246 332)
Long-term debt issuing	2 843 300		2 843 300	2 835 200
Decrease in long-term debt	(7 628 421)		(7 628 421)	(5 843 481)
Short-term borrowings	<u>2 453 160</u>		<u>2 453 160</u>	<u>895 865</u>
Cash flows from financing activities	<u>(4 309 377)</u>		<u>(4 309 377)</u>	<u>(2 358 748)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	112 835		112 835	821 192
OPENING CASH AND CASH EQUIVALENTS	<u>6 232 158</u>		<u>6 232 158</u>	<u>5 410 966</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 16)	<u>\$6 344 993</u>		<u>\$6 344 993</u>	<u>\$6 232 158</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS August 31, 2008

1. CONSTITUTION AND PURPOSE

A legal person under the *Civil Code*, the Société de la Place des Arts de Montréal (Société) was established under the *Act respecting the Société de la Place des Arts de Montréal* (R.S.Q., c. S-11.03) to operate an enterprise that promotes the performing arts and administers the Place des Arts de Montréal or any other establishment entrusted to it by the Government.

Specifically, these activities are designed to procure a residence for major artistic organizations, promote access to various types of performing arts and foster Québec's artistic and cultural sector.

Under Section 32 of its incorporating legislation, the Société finances its activities through the sums it receives and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the Government decides otherwise.

The Société is a recognized registered non-profit organization within the meaning of the *Income Tax Act* and, as such, is eligible for the related income tax exemption.

2. CHANGE IN ACCOUNTING POLICIES

Fund accounting

On September 1, 2007, the Société adopted the fund accounting method. It applies the deferral method to report contributions. The Operating Fund shows the Société's current operations. The Production Fund supports the production and distribution of shows designed for large venues. The Production Fund's balance at September 1, 2007 includes a \$100 000 transfer from the Operating Fund in order to finance its activities. The financial statements were restated to reflect this change.

Financial instruments

During the year, the Société applied CICA's new recommendations for financial instrument recognition, measurement and presentation following the release of Section 1530, "Comprehensive Income", Section 3855, "Financial Instruments – Recognition and Measurement" and Section 3861, "Financial Instruments – Disclosure and Presentation".

To apply Section 3855, the classification adopted by the Société is disclosed in Note 4. Previously, financial instruments were reported at cost. For the Société, the impact of these new accounting standards is limited solely to disclosing additional information, given that there is no effect on financial instrument measurement due to the classification adopted by the Société.

Future changes in accounting policies

In the coming fiscal year, the Société will apply CICA's new recommendations for Section 3031, "Inventories", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". Sections 3862 and 3863 seek to give users information enabling them to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and extent of the risks arising from financial instruments for the entity and how it manages these risks. Sections 3862 and 3863 replace Section 3861 of the Handbook entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed but maintain the same presentation requirements.

Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

CICA also released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles" and Section 3450, "Research and Development". This new section establishes standards for recognition, measurement and disclosure of information applying to goodwill and intangible assets, including intangible assets generated internally. The section applies to fiscal years opening on or after October 1, 2008. Therefore, the Société will adopt these new standards during the fiscal year beginning on September 1, 2009.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

2. CHANGE IN ACCOUNTING POLICIES (cont'd)**Future changes in accounting policies (cont'd)**

Since sections 1530, 3862 and 3863 target specifically information to be disclosed, they will not affect the Société's results. Management deems that it is unable to assess the impact of applying the changes in accounting policies in sections 3031 and 3064 on its financial statements.

3. FUND PURPOSES

The Operating Fund shows the Société's current operations. The Production Fund supports the production and distribution of shows designed for large venues.

4. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Financial instruments*Initial measurement*

Financial instruments are recognized at their fair value on the date of the transaction. Transaction costs are reported under net results.

Category of financial instrument and subsequent measurement*Assets and liabilities held for transaction purposes*

The assets held for transaction purposes are assets that the Société acquired primarily for resale in the short term for profit or that belong to a portfolio of identified financial instruments that are managed together and that present indications of a recent profile of short-term profit-taking.

The Société has classified cash on hand, short-term investments and cash reserved for construction and retrofitting as assets held for transaction purposes.

Loans and receivables

Loans and receivables do not include debt securities. Loans and receivables are subsequently measured at their amortized cost using the effective interest rate method. Interest income is included under financial products.

The Société classified payables and admissible claims in this category.

Other liabilities

Other financial liabilities include all non-derivative financial liabilities not classified in the "held for transaction purposes" category. These liabilities are subsequently measured at their amortized cost using the effective interest rate method.

The Société classified leasing deposits, ticket sales, suppliers and accrued expenses, accrued interest payable, short-term borrowing and the long-term debt in this category.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**4. ACCOUNTING POLICIES (cont'd)****Financial instruments (cont'd)***Comprehensive income*

The Société classified no financial instruments as financial assets available for sale. Consequently, comprehensive income does not differ from the excess (deficiency) of revenues over expenses.

Subsidy reporting*Subsidies*

Subsidies are posted to revenues for the fiscal year in which the related expenses were incurred.

Subsidies receivable for capital assets and their maintenance are posted in the fiscal year in which the Société carries out the work or obtains the financing entitling it to these subsidies.

Other revenue

Revenue from service delivery and sales is posted when the following conditions have been met:

- There is convincing evidence that an agreement exists;
- Delivery has occurred or the service has been rendered;
- The selling price has been determined or can be determined;
- Recovery is reasonably certain.

Costs deferred to the arts accessibility program

All deferred costs are accumulated in the balance sheet the fiscal year in which they are incurred and are charged to results for the period the performance runs in proportion to performances given during the year.

Bar inventory

Bar inventory is valued at cost (calculated using the first in, first out (FIFO) method) or net realizable value.

Capital assets

Capital assets are valued at cost, which includes materials, direct labour, direct costs and financing costs during the work. Capital assets are amortized over their service life using the straight-line method as follows:

Capital assets:

Building	40 years
Building improvements and major repairs	10 years
Stage equipment and accessories	10 years
Office furniture and equipment	10 years
Other equipment	5 years
Computer hardware	3 years

Intangible assets:

Computer software	3 years

Cash and cash equivalents

Cash and cash equivalents consist of bank balances including bank overdrafts and short-term investments maturing within three months.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**4. ACCOUNTING POLICIES (cont'd)****Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

5. OTHER GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2008	2007
Interest on bonds and borrowings on notes	\$3 258 523	\$3 507 838
Compensation in lieu of taxes	6 249 363	6 094 581
Amortization of deferred Gouvernement du Québec subsidies	5 919 080	5 193 964
Pay equity	350 699	
	<u>\$15 777 665</u>	<u>\$14 796 383</u>

6. ARTS ACCESSIBILITY PROGRAM

The cumulated surplus is slated essentially for the implementation of a series of shows in partnership with guest programmers. The net contribution to the arts accessibility program is as follows:

	2008	2007
Revenues		
Ticket sales	\$145 143	\$64 235
Ancillary services		8 569
	<u>145 143</u>	<u>72 804</u>
Expenses		
Wages and fringe benefits	52 238	26 417
Artists' honoraria, artistic direction and programmer support	213 311	202 125
Administrative costs	124 057	34 279
	<u>389 606</u>	<u>262 821</u>
Net contribution	<u>\$(244 463)</u>	<u>\$(190 017)</u>

7. FONDATION DE LA PLACE DES ARTS

The Fondation de la Place des Arts is designated a public foundation under par. 149.1 (6.3) of the *Income Tax Act*. Since 2006, it has been a charitable organization mandated primarily to support the Société de la Place des Arts de Montréal by contributing to the realization of projects and activities that fall under its artistic and cultural mission, as decided by the Fondation and the Société. The Fondation's Board of Directors is independent.

On August 31, 2008, the Fondation's net assets totalled \$1 560 111. As of this fiscal year, the Fondation's financial statements are no longer consolidated with those of the Société because the latter no longer controls the Fondation's activities. This resulted in a \$1 500 329 adjustment being posted.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**8. DEBT RECEIVABLE**

	2008	2007
Debt receivable, at the rate of 5.9% repayable in monthly payments of \$1 216, maturing in February 2013	\$57 534	\$68 378
Cash receivable in the coming fiscal year	(11 502)	(10 844)
	<u>\$46 032</u>	<u>\$57 534</u>

The amount of cash receivable in the coming 5 fiscal years is:

2009	\$11 502
2010	12 199
2011	12 939
2012	13 724
2013	7 170

9. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Gouvernement du Québec subsidies receivable presented as short-term correspond to the interest charged on the long-term debt, short-term borrowings, reimbursement of capital on the long-term debt in the next fiscal year and wage adjustment linked to the pay equity process. The long-term portion represents the Gouvernement du Québec's total commitments for capital assets and their maintenance minus capital repayments on the long-term debt paid and payable in the next fiscal year. Subsidies are cashable in keeping with the related long-term debt payments.

10. CAPITAL ASSETS

	2008		2007
	Cost	Accumulated depreciation	Net
Capital assets			
Land	\$7 608 742		\$7 608 742
Building	100 939 423	\$63 012 176	37 927 247
Building improvements and major repairs	75 585 977	66 025 714	9 560 263
Stage equipment and accessories	2 832 918	2 217 853	615 065
Office furniture and equipment	284 047	190 906	93 141
Other equipment	1 290 012	1 166 667	123 345
Computer hardware	932 057	789 918	142 139
	<u>189 473 176</u>	<u>133 403 234</u>	<u>56 069 942</u>
			<u>57 451 330</u>
Intangible assets			
Computer software	1 912 459	1 740 187	172 272
	<u>\$191 385 635</u>	<u>\$135 143 421</u>	<u>\$56 242 214</u>
			<u>\$57 896 255</u>

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

11. OBLIGATION RELATED TO PUTTING CAPITAL ASSETS OUT OF SERVICE

The Gouvernement du Québec announced the construction of a new concert hall on the eastern esplanade of Place des Arts. This project involves closing down and demolishing part of the Place des Arts parking lot by March 1, 2009. The total estimated cost of the obligation linked to closing down and demolishing parking spaces over the next 18 months was estimated at \$1 040 000 at September 1, 2007. The book value of capital assets and liabilities "Accounts payable and accrued liabilities" was increased to reflect this obligation. The Société will receive a Gouvernement du Québec subsidy of an equivalent amount. The cost of amortizing the fiscal year's capital assets includes \$693 333 to reflect the amortization of these costs over the parking lot's remaining estimated service life.

Similar measures must be applied to other elements of the Société's building inventory. However, it is not possible to reasonably estimate the obligation's fair value since the Société is unable to determine the date this renovation or demolition work will begin on these capital assets.

12. SHORT-TERM BORROWINGS

The Gouvernement du Québec authorized the Société to contract the following borrowings for building maintenance from the Gouvernement du Québec Financing Fund:

	<u>2008</u>	<u>2007</u>
Term note renewable at September 30, 2008, authorized by order-in-council for a maximum of \$2 834 300 bearing interest at a rate of 3.16766%	\$2 446 250	\$2 056 019
Term note renewable at September 30, 2008, authorized by order-in-council for a maximum of \$2 832 800 bearing interest at a rate of 3.16766%	2 147 940	1 622 065
Term note renewable at September 30, 2008, authorized by order-in-council for a maximum of \$2 836 800 bearing interest at a rate of 3.16766%	2 215 911	1 761 707
Term note renewable at September 30, 2008, authorized by order-in-council for a maximum of \$2 781 600 bearing interest at a rate of 3.16766%	1 922 216	
Term note renewable at September 30, 2008, authorized by order-in-council for a maximum of \$3 400 000 bearing interest at a rate of 3.16766%	1 615 532	
Term note transferred to the long term on July 7, 2008		<u>2 454 898</u>
	<u>\$10 347 849</u>	<u>\$7 894 689</u>

The maximum amount authorized by the Gouvernement du Québec for short-term borrowings related to assets maintenance is \$17 882 840.

The Société is also authorized to contract a maximum of \$2 000 000 in short-term borrowings for its operations under a credit line at variable or fixed rates without exceeding the prime rate for a term not to exceed one year.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**13. LONG-TERM DEBT**

	2008	2007
Borrowings on notes from the Gouvernement du Québec's Financing Fund guaranteed by moveable hypothecs without divestment:		
- 5.825% (effective rate of 5.954%), repayable in annual principal instalments of \$2 541 837 up to December 1, 2009 and one instalment of \$17 792 858 on December 1, 2010	\$22 876 532	\$25 418 369
- 5.276% (effective rate of 5.407%), repayable in annual principal instalments of \$886 252 up to December 3, 2011 and one instalment of \$6 203 762 on December 3, 2012	9 748 769	10 635 020
- 5.481% (effective rate of 5.648%), repayable in annual principal instalments of \$93 451 up to October 1, 2012	467 257	560 709
- 4.237% (effective rate of 4.413%), repayable in annual principal instalments of \$271 321 up to December 1, 2010	813 963	1 085 284
- 4.6172% (effective rate of 4.7736%), repayable in annual principal instalments of \$183 686 up to December 1, 2015	1 469 486	1 653 172
- 4.622% (effective rate of 4.774%), repayable in annual principal instalments of \$509 834 up to March 31, 2016	4 078 670	4 588 503
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$88 625 up to October 1, 2013	531 751	620 376
- 5.187% (effective rate of 5.345%), repayable in annual principal instalments of \$255 975 up to October 1, 2013	1 535 853	1 791 829
- 4.937% (effective rate of 5.064%), repayable in annual principal instalments of \$357 634 up to July 16, 2020	4 291 613	4 649 247
- 4.2739% (effective rate of 4.3922%), repayable in annual principal instalments of \$171 413 up to December 1, 2014 and one instalment of \$1 028 479 on December 1, 2015	2 228 372	2 399 785
- 4.557% (effective rate of 4.685%), repayable in annual principal instalments of \$284 945 up to May 10, 2012 and one instalment of \$1 424 724 on May 10, 2013	2 564 503	2 849 447
- 4.164% (effective rate of 4.313%), repayable in annual principal instalments of \$285 759 up to October 1, 2012 and one instalment of \$1 428 794 on October 1, 2013	2 857 588	
- 4.515% (effective rate of 4.705%), repayable in annual principal instalments of \$483 449 up to October 1, 2007		483 449
	53 464 357	56 735 190
Bond guaranteed by the Gouvernement du Québec		1 500 000
	53 464 357	58 235 190
Payments due in the next fiscal year	5 930 732	7 628 424
	<u>\$47 533 625</u>	<u>\$50 606 766</u>

Payments on the principal of the long-term debt over the next five fiscal years under call features and amortization clauses for the bonded debt are as follows:

2009	\$5 930 732
2010	5 930 734
2011	21 181 753
2012	3 117 574
2013	11 003 657

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

14. DEFERRED GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2008	2007
Opening balance	\$51 468 675	\$53 355 754
Subsidies posted to the year's revenues	(5 919 080)	(5 193 964)
Subsidies received during the year to cover future expenses	4 044 699	3 306 885
Closing balance	<u>\$49 594 294</u>	<u>\$51 468 675</u>

15. CONTRIBUTED SURPLUS

This item corresponds to property costs.

16. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	2008	2007
Cash on hand	\$6 344 993	\$5 232 158
Short-term investment		1 000 000
	<u>\$6 344 993</u>	<u>\$6 232 158</u>

Interest paid to the Société during the year amounts to \$3 355 763 (2007: \$3 579 309).

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. The Société has commercial rental income of \$811 551 (2007: \$766 079) with a related company. These transactions are not shown separately in the financial statements.

18. FUTURE FRINGE BENEFITS**Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Retirement Plan for Senior Officials (RPSO), which are inter-enterprise defined-benefit plans and include guaranteed payments on retirement and death.

At January 1, 2008, the Société's RREGOP contribution rate rose from 7.06% to 8.19% of the contributory payroll and that of the PPMP and RPSO from 7.78% to 10.54%.

Other Société staff members, namely, stagehands and dressers, contribute to two defined-benefit plans.

The Société's contributions charged to the year-end statement totalled \$322 603 (2007: \$258 040). Its liability towards these Government plans is restricted to its employer contributions.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

18. FUTURE FRINGE BENEFITS (cont'd)**Provision for sick leave and vacation time included in accounts payable and accrued liability**

	2008			2007
	Sick leave	Vacation time	Total	Total
Opening balance	\$228 912	\$273 331	\$502 243	\$505 772
Annual expenses	107 189	250 461	357 650	321 939
Benefits paid	(95 552)	(235 227)	(330 779)	(325 468)
Closing balance	<u>\$240 549</u>	<u>\$288 565</u>	<u>\$529 114</u>	<u>\$502 243</u>

19. COMMITMENTS

The Société is committed to long-term contracts for goods and services, maturing on various dates up to 2022 and to construction work on capital assets.

Minimum future payments are:

2009	\$4 096 969
2010	2 770 214
2011	1 434 642
2012	21 494
2013 and thereafter	<u>155 199</u>
	<u>\$8 478 518</u>

20. FINANCIAL INSTRUMENTS**FAIR VALUE OF FINANCIAL INSTRUMENTS****Long-term debt**

At August 31, 2008, the fair value of the long-term debt of \$53 464 357 (2007: \$58 235 190) was \$56 549 421 (2007: \$60 148 438), given the discounting of cash flows at the market rate for securities with a similar maturity date and interest rate.

Short-term borrowings

The fair value of short-term borrowings at August 31, 2008 in the amount of \$10 347 849 (2007: \$7 894 689) corresponds to the book value of these securities, given their short renewal deadline.

Other assets and liabilities

The fair value of the cash, short-term investment, accounts receivable, deposits, rentals and ticket sales and accounts payable and accrued liabilities equals their cost, given that they mature in the short term.

21. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

SOCIÉTÉ DE LA PLACE DES ARTS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société de la Place des Arts de Montréal (Société) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Marie Lavigne
Director General

Michel Grégoire, CA
Director, Finances and Administrative Services

Montréal, October 20, 2008

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société de la Place des Arts de Montréal (Société) as at August 31, 2008 and the statements of operations, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at August 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, , in my opinion, with the exception of the changes to accounting policies for financial instruments disclosed in Note 2, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, October 20, 2008

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
(R.S.Q., c. S-11.011)

STATEMENT OF OPERATIONS
for the year ended December 31
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
REVENUES		
Fees collected on vehicle registration and driver's licence transactions	97 516	93 976
Road checks (Note 4)	61 102	60 995
Ministère des Transports contribution to program financing	10 052	8 045
Fees collected for management of unpaid fines	6 715	6 740
Revenues, excluding interest (Note 5)	3 710	4 010
Other	630	637
	<u>179 725</u>	<u>174 403</u>
EXPENSES		
Administrative expenses and other (Note 6)		
Highway system access management	138 917	132 491
Road checks	61 102	60 995
Programs financed by the Ministère des Transports (Note 7)	10 052	8 045
Management of unpaid fines	6 715	6 740
	<u>216 786</u>	<u>208 271</u>
Share in Tribunal administratif du Québec financing (Note 8)	714	640
	<u>217 500</u>	<u>208 911</u>
DEFICIENCY OF REVENUES OVER EXPENSES	<u>(37 775)</u>	<u>(34 508)</u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED DEFICIT
for the year ended December 31
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
OPENING BALANCE	(141 285)	(106 777)
Deficiency of revenue over expenditure	<u>(37 775)</u>	<u>(34 508)</u>
CLOSING BALANCE	<u>(179 060)</u>	<u>(141 285)</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

BALANCE SHEET
as at December 31
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
ASSETS		
Accounts receivable (Note 9)	55 767	22 354
Amount owed by the Insurance Fund (Note 10)	50 478	54 483
Capital assets (Note 11)	<u>117 972</u>	<u>110 013</u>
	<u>224 217</u>	<u>186 850</u>
LIABILITIES AND CUMULATED DEFICIT		
LIABILITIES		
Cheques issued in excess of bank balances	8 218	11 706
Credit line (Note 12)	148 385	125 730
Accounts payable and accrued liabilities		
Gouvernement du Québec	145 672	97 313
Other	37 238	28 871
Provision for fringe benefits and amounts owed to employees (Note 13)	62 381	63 059
Deferred government assistance	<u>1 383</u>	<u>1 456</u>
	403 277	328 135
CUMULATED DEFICIT	<u>(179 060)</u>	<u>(141 285)</u>
	<u>224 217</u>	<u>186 850</u>
COMMITMENTS (Note 15)		
CONTINGENCIES (Note 16)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,

Marie-Anne Tawil, LL.L., LL.B., MBA
President of the Board of Directors

André Lesage, FCA
President of the Audit Committee

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
STATEMENT OF CASH FLOWS

for the year ended December 31

(in thousands of dollars)

	2008	2007
OPERATING ACTIVITIES		
Highway system access management		
Fees collected on vehicle registration and driver's licence transactions	95 529	93 898
Administrative expenses paid	(117 450)	(119 672)
Administrative expenses reimbursed by third parties	858	411
Road checks		
Ministère des Finances contribution received	62 103	46 915
Other revenues	2 344	2 024
Administrative expenses paid	(53 562)	(54 876)
Administrative charges reimbursed by third parties	246	
Programs financed by the Ministère des Transports		
Ministère des Transports contribution received	9 194	7 756
Fees paid	(9 669)	(8 151)
Management of unpaid fines		
Fees collected	7 050	6 639
Fees paid	(5 591)	(5 940)
Revenues, excluding interest		
Interest collected	4 754	2 668
Interest paid	(2 400)	(1 785)
Other income collected	1 281	1 159
	(5 313)	(28 954)
Trusteeship for the Insurance Fund		
Contributions – vehicle registration		
Collected for the Insurance Fund	624 553	583 952
Remitted to the Insurance Fund	(638 272)	(584 485)
Contributions – drivers' licences		
Collected for the Insurance Fund	170 212	131 414
Remitted to the Insurance Fund	(174 208)	(131 544)
Administrative charges and other fees paid for the Insurance Fund	(132 276)	(121 099)
Administrative charges reimbursed by the Insurance Fund	136 400	125 000
	(13 591)	3 238
Mandates conferred by the Gouvernement du Québec		
Registration and driver's licence fees		
Collected for the Gouvernement du Québec	780 065	812 687
Remitted to the Gouvernement du Québec	(761 609)	(823 041)
Collected for the Société de financement des infrastructures locales	53 517	49 282
Remitted to the Société de financement des infrastructures locales	(53 016)	(49 402)
Collected for other governments	32 629	37 136
Remitted to other governments	(32 636)	(37 265)
Taxes		
Collected for the Gouvernement du Québec	926 178	837 726
Remitted to the Gouvernement du Québec	(915 195)	(840 846)
Motorists' contribution to mass transit		
Collected for the Gouvernement du Québec	72 227	70 293
Remitted to the Gouvernement du Québec	(71 293)	(70 490)
Parking stickers		
Collected for the Gouvernement du Québec	443	352
Remitted to the Gouvernement du Québec	(438)	(353)
	30 872	(13 921)
Cash flows related to operating activities		
(Amounts carried forward)	11 968	(39 637)

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

STATEMENT OF CASH FLOWS (cont'd)
 for the year ended December 31
 (in thousands of dollars)

	<u>2008</u>	<u>2007</u>
Cash flows related to operating activities (Amounts brought forward)	<u>11 968</u>	<u>(39 637)</u>
INVESTMENT ACTIVITIES		
Disbursement for acquisition of capital assets	(31 202)	(22 007)
Proceeds from sale of capital assets	<u>67</u>	<u>105</u>
Cash flows related to investment activities	<u>(31 135)</u>	<u>(21 902)</u>
FINANCING ACTIVITIES		
Reimbursements from the Insurance Fund	<u></u>	<u>40 000</u>
Cash flows related to financing activities	<u></u>	<u>40 000</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(19 167)	(21 539)
OPENING DEFICIENCY OF CASH AND CASH EQUIVALENTS	<u>(137 436)</u>	<u>(115 897)</u>
CLOSING DEFICIENCY OF CASH AND CASH EQUIVALENTS (Note 14)	<u><u>(156 603)</u></u>	<u><u>(137 436)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at December 31, 2008

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société de l'assurance automobile du Québec (Société) is a legal person established in the public interest within the meaning of the Civil Code of Québec under the *Act respecting the Société de l'assurance automobile du Québec* (R.S.Q., c. S-11.011).

Purpose

The Société's purpose is to:

- administer the *Highway Safety Code* (R.S.Q., c. C-24.2), in particular with respect to the registration of road vehicles, permits and licences, vehicle safety standards and obligations in the event of an accident;
- where highway safety is concerned:
 - ensure the monitoring of and control over highway transportation of goods and passengers on highways and in carrier facilities, in particular with respect to the application of the provisions:
 - o of the Highway Safety Code;
 - o the legislative or regulatory provisions pertaining to highway transportation which are under the responsibility of the departments and agencies designated by the Government, to the extent and on the conditions determined by agreement entered into pursuant to the Highway Safety Code;
 - assume operational coordination in matters pertaining to the control of highway transportation between the departments and agencies concerned and to promote stricter road checks throughout Québec.
- fulfil any other mandate that might be given under the Act or through an agreement with the Government, one of its departments or agencies:
 - Programs Funded by the Ministère des Transports

Under an agreement with the Ministère des Transports and in keeping with the Act respecting the Société de l'assurance automobile du Québec, the Société is responsible for applying the Vehicle Adaptation Program and for issuing parking stickers for persons with disabilities as per the Highway Safety Code.

Under a second agreement with the Ministère des Transports and in keeping with the Act respecting the Société de l'assurance automobile du Québec, the Société applies and is responsible for the Alcofrein program.

- Management of unpaid fines

The Highway Safety Code states that the Société must limit persons' or vehicles' access to the highway network when the collector (*Code of Penal Procedure*, [R.S.Q., c. C-25.1]), mainly the municipalities, advises the Société of the defendant's situation with regard to unpaid fines.

- o collect, under agreements or regulations:
 - for highway system access management, fees related to vehicle registration and driver's licence transactions;
 - as a trustee for the Fonds d'assurance automobile du Québec (Insurance Fund), insurance premiums related to obtaining registration for a motor vehicle and issuing of a driver's licence.
 - as an agent of the Gouvernement du Québec, fees related to vehicle registration and driver's licences, sales taxes applying to vehicles, the tax applicable to insurance premiums and motorists' contributions to mass transit;

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE (cont'd)
Purpose (cont'd)

- for the Société de financement des infrastructures locales, fees related to motor vehicles fitted with a high-cylinder engine;
- for provincial and US state governments, other registration fees.

The Act respecting the Société de l'assurance automobile du Québec states that the Société must transfer any amount it collects as an insurance contribution and any other amount intended to increase the Insurance Fund to that fund.

- o administer the Insurance Fund, as a trustee:

The Insurance Fund is a social utility trust within the meaning of the Civil Code of Québec, created on January 1, 2004 by transferring Société assets, whose estate is assigned to compensating bodily and material damages provided for under the *Automobile Insurance Act* (R.S.Q., c. A-25), and highway safety-related prevention and promotion.

The Insurance Fund is not consolidated with the Société because it constitutes a separate trust estate under the Act respecting the Société de l'assurance automobile du Québec. Separate financial statements are produced for the Insurance Fund. The chart below presents a summary of the amounts managed for the Insurance Fund at December 31:

	<u>2008</u>	<u>2007</u>
ASSETS		
Fund entrusted to the Caisse de dépôt et placement du Québec	5 738 369	8 167 356
Other assets	<u>72 702</u>	<u>104 187</u>
	<u><u>5 811 071</u></u>	<u><u>8 271 543</u></u>
LIABILITIES		
Obligations to accident victims – Actuarial liabilities	8 064 481	8 129 483
Other liabilities	<u>411 104</u>	<u>402 666</u>
	<u>8 475 585</u>	<u>8 532 149</u>
CUMULATED DEFICIT	<u>(2 664 514)</u>	<u>(260 606)</u>
	<u><u>5 811 071</u></u>	<u><u>8 271 543</u></u>

2. ACCOUNTING POLICIES

For the purposes of the preparation of its financial statements, the Société relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be consistent with this handbook. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main items in respect of which management has established estimates and formulated assumptions are bad debts, the useful life-span of capital assets, and the allowance for employee benefits and amounts due to employees. The real results may differ from management's best forecasts.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)
a) Capital assets

Capital assets are recorded at historical cost and depreciated as follows, taking into account their residual value:

	<u>Method</u>	<u>Service life</u>
Buildings	Straight-line	40 years
Head Office furnishings	Straight-line	10 years
Leasehold improvements	Straight-line	Lease term
Equipment	Straight-line	Maximum 5 years
Automotive equipment	Straight-line	Maximum 5 years
Photography stations	Straight-line	Maximum 5 years
Data processing equipment and operating software	Straight-line	Maximum 5 years
Computer systems development	Straight-line	Maximum 7 years
Application software	Straight-line	Maximum 5 years
Highway monitoring stations		
Buildings	Straight-line	10 years and 20 years
Site development	Straight-line	20 years
Equipment	Summary-of-the-years' digits	Maximum 10 years

b) Depreciation of capital assets

When economic conditions indicate that a capital asset is no longer contributing to the Société's ability to provide goods and services or when the value of future economic benefits linked to the capital asset is less than its net book value, the cost of the capital asset is reduced to reflect the decrease in its value. The loss in value is posted to the statement of operations for the period in which the depreciation was determined.

c) Revenue

Amounts collected for vehicle registration and driver's licence transactions are posted to revenue when the service is rendered. Contributions for Société programs or mandates, and other revenues, are posted when they can be reasonably estimated and it is relatively certain that they will be received. Interest income is recorded when it is earned.

d) Deferred government assistance

Subsidies granted under government assistance programs to finance capital assets are recorded as deferred revenue when it is reasonably certain that they will be received. Deferred government assistance is amortized at the same pace as the attendant capital asset.

e) Employees' future benefits
Retirement plans

Société employees contribute to Gouvernement du Québec interemployer defined-benefit plans. The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Supplementary pension plan

This plan is recorded as a defined-benefit pension plan. The cost of the plan is established each year according to actuarial valuations that rely on the projected-cost method as a proportion of years of service. The actuarial valuations are produced each year in light of a capitalization rate based on the yield upon maturity of superior quality debt securities whose cash flows match the payments anticipated under this plan. The other economic and demographic assumptions are those deemed to be the most probable by the Société's management. The actuarial gains and losses are amortized using the straight-line method over the average estimated remainder of the participants' active careers.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**e) Employees' future benefits (cont'd)***Provision for sick leave*

The provision for sick leave is established by means of an actuarial method that takes into account the earned benefits on the closing date. The value of the actuarial obligations is established according to the most probable economic assumptions, which are re-evaluated each year.

f) Cash and cash equivalents

The Society presents bank balances, including bank overdrafts whose balances often fluctuate between overdraft and available, and the line of credit used to cover monthly cash shortages under cash and cash equivalents.

3. CHANGE IN ACCOUNTING METHODS

Since January 1, 2008, at the request of the government, the Société has established its financial statements using the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). It previously used the CICA accounting handbook for the private sector. The impact of the initial application of these new standards has been recognized retroactively with the restatement of the comparative financial statements. This change has no impact on the Société's results and cumulated deficit.

The accounting conventions affected by the change of authoritative accounting pronouncements are described below.

Financial instruments

Information on financial instruments is no longer required since the relevant standards are not applicable according to generally accepted accounting principles in the public sector. This modification has no impact on the measurement of assets and liabilities.

Capital assets

Computer development and application software are now presented under the item "Capital assets," formerly called "Tangible assets," rather than "Intangible assets." Moreover, computer equipment and system software related to computer development is now recorded in the category "Computer development."

Government assistance

Government assistance related to the financing of capital assets is now recorded as deferred revenue, which is amortized at the same pace as the attendant capital asset. Government assistance was previously accounted for by reducing the cost of assets.

This change has led to the creation of the item "Deferred government assistance" in the amount of \$1 383 000 as at December 31, 2008 (2007: \$1 456 000) and an increase by the same amount in the unamortized cost of capital assets. The amortization of deferred government assistance is presented separately in the note "Administrative expenses and other."

Income and expenditure

Income and expenditure are not presented at gross value in the notes to the financial statements. Previously, certain expenses incurred by the Société and reimbursed by a third party, in particular Services Québec or the Société immobilière du Québec, were presented at net value in the note "Administrative expenses and other." These expenses are now presented at gross value and the corresponding income is presented as the reimbursement by third parties of administrative expenses.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

4. ROAD CHECKS

	2008	2007
Ministère des Finances	58 758	58 595
Other revenues	2 344	2 400
	<u>61 102</u>	<u>60 995</u>

Road check costs are financed by a Ministère des Finances contribution, resulting from an agreement between it and the Société.

5. REVENUES, EXCLUDING INTEREST

	2008	2007
Interest posted to the Insurance Fund	1 325	2 145
Interest posted to the Road Checks	979	1 080
Interest income on bank balances	167	313
Interest on payment deferral		
Revenue	3 639	2 258
Interest charges	(1 502)	(1 268)
Interest charges on credit line	<u>(898)</u>	<u>(518)</u>
	<u>3 710</u>	<u>4 010</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

6. ADMINISTRATIVE EXPENSES AND OTHER

	2008				2007	
	Manage- ment of highway system access	Road checks	Programs financed by the Ministère des Transports (Note 7)	Manage- ment of unpaid fines	Total	Total
Administrative expenses						
Salaries and fringe benefits	71 415	37 032	1 273	2 362	112 082	111 735
Agents' remuneration	14 128			57	14 185	13 019
Administrative and professional services	9 684	2 506	386	305	12 881	11 003
Travelling expenses	1 034	1 403	7	35	2 479	2 575
Communications	6 032	2 145	26	2 638	10 841	10 332
Information and advertising	452	324	2	6	784	605
Rent, taxes and electricity	6 062	2 341	16	63	8 482	7 928
Maintenance	1 022	3 115	4	10	4 151	3 608
Furniture, fixtures and equipment	1 791	337	9	20	2 157	1 059
Computer and office automation equipment rental and maintenance	6 382	2 387	30	275	9 074	9 062
Data processing equipment and office equipment	941	425	13	26	1 405	544
Printing, supplies and other expenses	7 365	1 648	32	45	9 090	9 183
Head Office user fees	2 682	848	72	137	3 739	3 413
Reimbursement of administrative expenses by third parties	(1 492)				(1 492)	(1 063)
	<u>127 498</u>	<u>54 511</u>	<u>1 870</u>	<u>5 979</u>	<u>189 858</u>	<u>183 003</u>
Amortization of capital assets	18 701	5 685	39	736	25 161	25 471
Amortization of deferred government assistance		(73)			(73)	(6)
Occupancy expenses of capital assets attributed to the Insurance Fund	(7 282)				(7 282)	(7 432)
	<u>11 419</u>	<u>5 612</u>	<u>39</u>	<u>736</u>	<u>17 806</u>	<u>18 033</u>
	<u>138 917</u>	<u>60 123</u>	<u>1 909</u>	<u>6 715</u>	<u>207 664</u>	<u>201 036</u>
Other						
Subsidies paid			8 143		8 143	6 155
Interest		979			979	1 080
		<u>979</u>	<u>8 143</u>		<u>9 122</u>	<u>7 235</u>
	<u>138 917</u>	<u>61 102</u>	<u>10 052</u>	<u>6 715</u>	<u>216 786</u>	<u>208 271</u>

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

6. ADMINISTRATIVE EXPENSES AND OTHER (cont'd)

The Société pays all of the administrative expenses for the mandates it manages, including those attributable to the Insurance Fund. They are then broken down by mandate with the help of management by activity, with the exception of subsidies paid, interests and the reimbursement of administrative expenses by third parties, as follows:

	2008	2007
Management of highway system access	138 917	132 491
Road checks	60 123	59 915
Programs financed by the Ministère des Transports	1 909	1 890
Management of unpaid fines	6 715	6 740
Total for the Société	207 664	201 036
Administrative expenses attributed to the Insurance Fund	132 977	121 424
Total administrative expenses	340 641	322 460

The administrative expenses of the Insurance Fund are presented in detail in the financial statements of the Fonds d'assurance automobile du Québec.

7. PROGRAMS FINANCED BY THE MINISTÈRE DES TRANSPORTS

	Vehicle adaptation	Parking identification stickers	Alcofrein	Total	Total
Administrative expenses	456	1 055	398	1 909	1 890
Subsidies paid	8 143			8 143	6 155
	8 599	1 055	398	10 052	8 045

8. SHARE IN TRIBUNAL ADMINISTRATIF DU QUÉBEC FINANCING

The contribution to funding the Tribunal administratif du Québec is provided for in the Act respecting administrative justice (R.S.Q., c. J-3). An annual order-in-council sets out each organization's share.

9. ACCOUNTS RECEIVABLE

	2008	2007
Accounts receivable – Payment deferral	36 928	10 299
Private service centres	10 494	4 852
Municipalities	2 751	3 086
Other	5 594	4 117
	55 767	22 354

10. AMOUNT OWED BY THE INSURANCE FUND

The amount receivable from the Insurance Fund is repayable upon request and bears interest at the average monthly rate applicable to the Société's line of credit with the Caisse de dépôt et placement du Québec. The credit line rate was 1.67% at December 31, 2008 (2007: 4.30%).

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

11. CAPITAL ASSETS

	2008		2007
	Cost	Cumulated depreciation	Unamortized cost
Land	1 637		1 637
Building	3 925	1 623	2 302
Head office furnishings	11 212	11 212	
Leasehold improvements ¹	2 608		2 608
Equipment	5 364	5 018	346
Automotive equipment ²	13 804	6 944	6 860
Photography station	12 180	12 180	
Data processing equipment and operating software	30 770	26 954	3 816
Computer systems development ³	175 830	114 847	60 983
Application software	3 780	2 860	920
Highway carrier monitoring weigh station ⁴	47 012	8 512	38 500
	<u>308 122</u>	<u>190 150</u>	<u>117 972</u>
			<u>110 013</u>

- 1 Leasehold improvements were completed at the end of the fiscal year and, consequently, were not amortized as at December 31, 2008. An amount of \$2 440 000 has been committed to the Société immobilière du Québec.
- 2 Rolling stock valued at \$1 509 000 (2007: \$929 000) was not yet in service at December 31, 2008 and has not been amortized.
- 3 Computer development valued at \$19 016 000 (2007: \$6 837 000) was under way at December 31, 2008 and has not been amortized.
- 4 Highway monitoring stations valued at \$8 791 000 were not yet operational at December 31, 2008 (2007: \$4 389 000). Consequently, they were not amortized.

12. CREDIT LINE

Under a Gouvernement du Québec order-in-council, the Société is authorized to contract a line of credit of \$400 000 000 until December 31, 2011 with financial institutions or the Caisse de dépôt et placement du Québec (the Caisse) or from the Minister of Finance in his capacity as manager of the Financing Fund. Consequently, at December 31, 2008, the Société had:

- a \$390 000 000 line of credit with the Caisse expiring on December 31, 2010, which bears interest at the annual rate of return of the demand account established daily and increased by 0.05%. The interest rate was 1.67% at December 31, 2008 (2007: 4.30%). The balance of this credit margin was \$148 385 000 at December 31, 2008 (2007: \$125 730 000);
- a \$10 000 000 line of credit with the National Bank of Canada (the Bank) expiring June 30, 2009, which bears interest at the prime rate of the Bank calculated daily. The interest rate stood at 3.50% at December 31, 2008. The balance of this credit line was zero at December 31, 2008.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at December 31, 2008

(in thousands of dollars)

13. PROVISION FOR FRINGE BENEFITS AND AMOUNTS OWED TO EMPLOYEES
Interemployer retirement plans

The employees of the Société participate mainly in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CCSP), the Pension Plan of Management Personnel (PPMP) and the Retirement Plan for Senior Officials (RPSO). The interemployer plans are defined-benefit pension plans and include guarantees upon retirement and at the time of death.

As at January 1, 2008, the Société's RREGOP contribution rate increased from 7.06% to 8.19% of the covered payroll and that of the PPMP and the RPSO, from 7.78% to 10.54%. The contribution rate of the CCSP remained at 7.25%.

The Société's contributions charged to results for the fiscal year stand at \$9 386 000 (2007: \$8 217 000). An amount of \$3 970 000 was charged to the Insurance Fund in 2008 (2007: \$3 356 000). The Société's obligations to these government plans are limited to its contributions as an employer.

Supplementary pension plan

During the fiscal year, the board of directors adopted the implementation, retroactive to May 1, 2007, of the Régime supplémentaire de retraite pour les vice-président(e)s de la Société (RSRVP) intended for the vice-presidents who do not participate in the RRAS. The participants do not contribute to the RSRVP. This defined-benefit pension plan is not capitalized and is intended primarily to cover the supplementary pension benefits of the vice-presidents of the Société who participate in the RRPE such that the overall pension benefits from the RSRVP and the RRPE are comparable to those that would be covered under the RRAS.

The financial data for the fiscal year are presented in the table below.

Provision for employees' future benefits and amounts due to employees

	2008				2007
	Sick leave ¹	Vacation time	Supplementary pension plan ²	Other fringe benefits and amounts owing ³	Total
Opening balance	41 470	18 952		2 637	63 059
Annual expenses	5 879	20 533	105	3 873	31 737
Benefits paid	(10 302)	(17 104)	(5)	(3 657)	(30 583)
Closing balance	37 047	22 381	100	2 853	63 059

1 This provision was subject to an evaluation at December 31, 2008 and the value of the actuarial obligations was established according to the following assumptions:

Growth rate of remuneration	3.35%
Capitalization rate	4.60%

2 The amount of unamortized net actuarial losses stood at \$53 000 at December 31, 2008. The significant actuarial assumptions adopted during the evaluation of obligations as regards accrued benefits are indicated below:

Growth rate of remuneration	3.50%
Capitalization rate	4.60%

3 The other fringe benefits include employer compensation for paid absences, notably in wage insurance and maternity/paternity leave. The amounts owed are related to overtime and unpaid holidays.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

14. CASH FLOWS

Cash and cash equivalents shown in the cash flow statement include the following items in the balance sheet:

	2008	2007
Cheques issued in excess of bank balances	(8 218)	(11 706)
Credit line	(148 385)	(125 730)
Deficiency in cash and cash equivalents	(156 603)	(137 436)

At December 31, 2008, the accounts payable and accrued liabilities for capital assets totalled \$4 988 000 (2007: \$3 142 000).

15. COMMITMENTS**Rental contracts**

The Société is committed under various premises rental contracts for a minimum amount estimated at \$47 114 000 at December 31, 2008. These contracts run until 2019 and break down as:

2009	\$9 473 000
2010	8 673 000
2011	6 609 000
2012	5 166 000
2013	4 669 000
2014 and thereafter	12 524 000

Contracts for computer and other services

The Société is committed under various contracts for computer and other services for an amount estimated at \$33 069 000 on December 31, 2008. These contracts run until 2013 and break down as:

2009	\$20 834 000
2010	9 004 000
2011	2 536 000
2012	640 000
2013	55 000

16. CONTINGENCIES

Various judicial and non-judicial proceedings instituted by or against the Société are under way. In the Société's opinion, the outcome of these proceedings, lined primarily to lawsuits for damages and interest, could not be determined at December 31, 2008.

17. RELATED PARTY TRANSACTIONS

The Société is related to all government departments and special funds and to all bodies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject either to shared control or significant influence by the Gouvernement du Québec. It is also related to the Insurance Fund. It did not do business with these related parties other than during the normal course of operations and under normal business conditions.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

17. RELATED PARTY TRANSACTIONS (cont'd)

The main transactions conducted with the related parties can be broken down as follows, with the exception of those presented separately in the financial statements, in particular for the Insurance Fund:

	2008	2007
Administrative expenses¹		
Centre de services partagés du Québec		
Information and advertising	4 170	3 279
Leasing and maintenance of computer and office automation equipment	3 620	3 685
Communications expenses	3 245	3 364
Société immobilière du Québec – Rents, taxes and electricity	1 911	1 931
Hydro-Québec – Head office user fees	961	942

1 A portion of these expenses is charged to the Insurance Fund. In fact, the Société assumes all of the administrative expenses of the mandates that it manages, including the expenses attributable to the Insurance Fund. They are subsequently broken down by mandate by means of activity-based management.

The transactions between related parties are recorded at exchange value.

18. ADDITIONAL INFORMATION ON FINANCIAL RISKS
Interest rate risk

The interest rate risk is defined as the volatility of interest rates that affects the cash items and cash equivalents (variable interest rates) of the Société.

The amount due from the Insurance Fund and the credit line bear interest at variable rates, from which thus stems a cash flow risk as regards the interest collected or paid in respect of these items.

The net impact, both from the standpoint of assets and liabilities, of an increase (reduction) in the interest rate equivalent to 1% during the fiscal year would have increased (reduced) by \$307 000 the deficit of revenues over expenses.

Liquidity risk

The liquidity risk represents the possibility that the Société may be unable to assemble at the right time and under reasonable conditions the funds necessary to meet its financial obligations.

To overcome this risk, forecasts of the Société's cash requirements are conducted daily. To ensure its cash requirements, the Société has credit margins of \$400 000 000, the balance of which stood at \$148 385 000 at December 31, 2008.

The Société is able to honour the liabilities that require disbursements within a time limit close to December 31, 2008. The Société usually pays its debts within 30 days.

Credit risk

The credit risk corresponds to the risk of financial losses stemming from the inability or refusal of a counterparty to fully fulfil its contractual obligations. The Société is exposed to a credit risk in respect of amounts to be recovered. The Société periodically evaluates the losses likely to result on its debts and establishes a provision for bad debts in light of historic trends. The book value of the debts represents the Société's maximum exposure to credit risk.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at December 31, 2008
(in thousands of dollars)

18. ADDITIONAL INFORMATION ON FINANCIAL RISKS (cont'd)**Credit risk (cont'd)**

An analysis of the age of the debts can be broken down as follows:

	2008		2007
	Gross value	Provision	Net value
Debts not overdue	53 532		53 532
Debts overdue for:			20 947
Less than 1 year	3 862	1 820	1 202
Between 1 and 2 years	985	819	179
Between 2 and 3 years	814	787	26
Between 3 and 4 years	702	702	
	<u>59 895</u>	<u>4 128</u>	<u>55 767</u>
			<u>22 354</u>

The debts not overdue mainly comprise amounts to be collected from the clientele that has adhered to payment deferral, the private service centres that are mandataries of the Société, and the municipalities.

The change in the provision for bad debts can be broken down as follows:

	2008	2007
Opening balance	3 649	3 649
Provision recorded during the fiscal year	2 216	1 698
Reversal of a provision	<u>(1 737)</u>	<u>(1 698)</u>
Closing balance	<u>4 128</u>	<u>3 649</u>

19. COMPARATIVE FIGURES

Certain 2007 figures were reclassified for consistency with the presentation adopted in 2008.

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société de l'assurance automobile du Québec (Société) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting methods in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal auditing department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors is responsible for overseeing the manner in which management performs its financial reporting duties, and approving the financial statements. This committee meets with management and external auditors, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec and Mallette, SENCRL, chartered accountants, have audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. Their report states the nature and scope of their audit and their opinion. They may, without restriction, meet with the audit committee to discuss any matter related to the audit.

John Harbour, FCA
President and CEO

André Legault, M. Fisc.
Vice-President, Human Resources, Administration
and Finance

Québec, March 27, 2009

SOCIÉTÉ DE L'ASSURANCE AUTOMOBILE DU QUÉBEC**AUDITORS' REPORT**

To the National Assembly

We have audited the balance sheet of the Société de l'assurance automobile du Québec at December 31, 2008 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société'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, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Société at December 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, bearing in mind the retrospective application of the changes made through the adoption of generally accepted accounting principles (GAAP), accounting standards in the public sector and disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Mallette, SENCRL, Chartered Accountants
Mallette
by Gratien Nolet, CA auditor

Québec, March 27, 2009

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
(R.S.Q., c. S-13)

CONSOLIDATED EARNINGS AND COMPREHENSIVE INCOME
year ended March 28, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
NET SALES (Note 5)	2 419 102	2 293 908
COST OF SALES (Note 5)	<u>1 143 203</u>	<u>1 054 799</u>
GROSS MARGIN (Note 5)	<u>1 275 899</u>	<u>1 239 109</u>
OPERATING EXPENSES		
Selling and marketing, distribution and administrative expenses (Note 6)	482 254	475 456
Financial expenses (Note 7)	2 460	4 333
Amortization of property, plant and equipment	22 490	23 675
Amortization of intangible assets	<u>10 484</u>	<u>23 012</u>
	<u>517 688</u>	<u>526 476</u>
OTHER REVENUE		
Advertising, promotional and other miscellaneous revenue	<u>48 503</u>	<u>48 274</u>
NET EARNINGS AND COMPREHENSIVE INCOME	<u><u>806 714</u></u>	<u><u>760 907</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

CONSOLIDATED RETAINED EARNINGS
year ended March 28, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
BALANCE, BEGINNING OF YEAR		
Balance as originally reported	13 114	14 207
Adjustment due to the adoption of a new accounting standard on inventories (Note 4)	<u>980</u>	
Restated beginning balance	14 094	<u>14 207</u>
NET EARNINGS	<u>806 714</u>	<u>760 907</u>
	820 808	775 114
DIVIDEND	<u>(806 000)</u>	<u>(762 000)</u>
BALANCE, END OF YEAR	<u><u>14 808</u></u>	<u><u>13 114</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED BALANCE SHEET**

March 28, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	27 722	28 176
Accounts receivable (Note 8)	44 846	46 678
Inventories (Note 9)	294 900	277 206
Deposits and prepaid expenses	<u>13 253</u>	<u>26 076</u>
	380 721	378 136
Property, plant and equipment (Note 10)	190 213	192 454
Intangible assets (Note 11)	<u>19 375</u>	<u>21 913</u>
	<u>590 309</u>	<u>592 503</u>
LIABILITIES		
Current liabilities		
Loans (Note 12)	36 998	42 989
Accounts payable and accrued liabilities (Note 13)	301 190	302 338
Dividend payable	<u>183 000</u>	<u>179 000</u>
	521 188	524 327
Capital lease obligation (Note 14)	3 298	4 672
Liability – cumulative sick leave credits (Note 16)	17 759	17 998
Accrued benefit liability – pension plan (Note 16)	<u>3 256</u>	<u>2 392</u>
	<u>545 501</u>	<u>549 389</u>
SHAREHOLDER'S EQUITY (Note 17)		
Share capital	30 000	30 000
Retained earnings	<u>14 808</u>	<u>13 114</u>
	<u>44 808</u>	<u>43 114</u>
	<u>590 309</u>	<u>592 503</u>

CONTINGENCIES AND COMMITMENTS (Note 19)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors,
 Norman Hébert, Jr., Chairman of the Board of Directors
 Chantal Bélanger, Audit Committee Chair

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**CONSOLIDATED CASH FLOWS**

year ended March 28, 2009

(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net earnings	806 714	760 907
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	32 974	46 687
Loss on disposal of property, plant and equipment	59	9
Sick leave credits expense	3 554	3 443
Pension plan expense	892	764
	<u>844 193</u>	<u>811 810</u>
Net change in non-cash working capital items (Note 20)	(5 779)	6 952
Benefits paid by cumulative sick leave credits plan and the pension plan	<u>(3 821)</u>	<u>(2 285)</u>
Cash flows from operating activities	<u>834 593</u>	<u>816 477</u>
INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment and intangible assets	(26 611)	(21 085)
Proceeds from disposal of property, plant and equipment and intangible assets	<u>786</u>	<u>207</u>
Cash flows from investment activities	<u>(25 825)</u>	<u>(20 878)</u>
FINANCING ACTIVITIES		
Net change in loans	(5 991)	(46 511)
Reimbursement of the capital lease obligation	(1 231)	(1 104)
Dividend paid	<u>(802 000)</u>	<u>(742 000)</u>
Cash flows from financing activities	<u>(809 222)</u>	<u>(789 615)</u>
NET INCREASE (DECREASE) IN CASH	(454)	5 984
CASH, BEGINNING OF YEAR	<u>28 176</u>	<u>22 192</u>
CASH, END OF YEAR	<u>27 722</u>	<u>28 176</u>

The accompanying notes are an integral part of the consolidated financial statements.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 28, 2009

(in thousands of dollars)

1. STATUTES AND NATURE OF ACTIVITIES

The Société des alcools du Québec (the SAQ) is constituted under the *Act respecting the Société des alcools du Québec* (R.S.Q., chapter. S-13). Its mandate is to sell alcoholic beverages in the province of Quebec. As a government corporation, it is exempt from income tax.

2. FISCAL YEAR

The SAQ's fiscal year ends on the last Saturday in March. Accordingly, the fiscal years ended March 28, 2009 and March 29, 2008 each comprise 52 weeks of operation.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used to prepare the consolidated financial statements are summarized below.

Principles of consolidation

The consolidated financial statements include the accounts of the SAQ and its prorata share in the assets and liabilities, revenues and expenses of Société d'investissement M.-S., S.E.C., a joint venture in which the SAQ holds a 50% interest. The interest is accounted for using the proportionate consolidation method.

Use of estimates

Preparing financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recognized during the fiscal year. The main items for which management made use of estimates and assumptions are inventories, the useful lives of property, plant and equipment and intangible assets, accrued liabilities; the actuarial liabilities related to cumulative sick leave credits; and accrued pension plan benefits. Actual results could differ from those estimates.

Revenue recognition

Sales of alcoholic beverages to consumers, agencies, permit holders (including licensed establishments and institutions), authorized distributors (wholesale grocers) as well as other revenues are recognized when earned, i.e., when the goods are delivered and the services are rendered, less discounts and returns, and when there is persuasive evidence that an arrangement exists, that the amounts are fixed or determinable, and that collection is reasonably assured. The SAQ acts as an agent for beer sales made to holders of a brewer's permit and to holders of a beer distributor's permit. Accordingly, these transactions are recognized on a net basis.

Recognition of considerations received from suppliers

Cash considerations received from suppliers are considered adjustments to the price of the suppliers' products and, therefore, are recognized as a reduction of the cost of sales and the related inventories. Certain exceptions apply when the cash considerations received are either reimbursements of the incremental costs incurred by the SAQ to sell the suppliers' products or as payments for goods or services rendered to the suppliers. These latter considerations received from suppliers are recorded, depending on their nature, as a reduction to the related expenses or as other revenue.

Operating leases

The SAQ accounts for the rent expense resulting from its operating leases on a straight-line basis over the term of the lease.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date, whereas other assets are translated at the exchange rate in effect on the transaction date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate in effect on the transaction date. Exchange gains and losses are recognized in earnings for the year. Exchange losses of \$3.2 million have been included in the earnings for 2009 (\$2.2 million in 2008).

Financial instruments

Financial instruments are measured at fair value upon initial recognition. Their measurement in subsequent periods and the recognition of changes in fair value depend on the category in which they are classified.

The SAQ has classified its financial instruments as follows:

- Cash is classified as "Assets held for trading" and measured at fair value.
- Accounts receivable are classified as "Loans and receivables". They are initially measured at fair value. Subsequently, they are measured at amortized cost using the effective interest rate method. For the SAQ, this measurement is usually equal to cost.
- Loans, accounts payable and accrued liabilities (except for government taxes and duties payable and the current portion of a capital lease obligation) as well as the dividend payable are classified as "Other financial liabilities." After their initial fair value measurement, they are subsequently recognized at amortized cost using the effective interest rate method. For the SAQ, this measurement is usually equal to cost. The interest expense and the transaction cost related to "Other financial liabilities" are presented in the consolidated statement of earnings under "Financial expenses."

The SAQ partially manages its exchange risk on the expected foreign currency outflows through the use of forward exchange contracts and other derivative financial instruments. However, the SAQ does not document its hedging relationship in accordance with Canadian GAAP and therefore these derivative financial instruments do not meet the hedge accounting criteria. Consequently, the SAQ recognizes its derivative financial instruments at their fair value, and the resulting gains and losses are included in operating expenses. These financial instruments are classified as assets and liabilities held for trading. While these derivative financial instruments fail to meet hedge accounting criteria, the SAQ believes that, from an operating and cash flow standpoint, these instruments enable it to reduce the potential negative effects of a drop in the Canadian dollar on foreign exchange markets. The SAQ does not use derivative financial instruments for speculative purposes.

Embedded derivatives

Derivatives embedded in financial instruments or contracts, other than those held or designated for trading, are separated from their host contract and accounted for as derivatives when their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract.

At March 29, 2008 and March 28, 2009, the SAQ did not have any financial instruments or contract with embedded derivatives that should be separated from the host contract.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being established according to the first in, first out method. The cost of inventories of alcoholic beverages includes the cost of acquisition, freight in, related customs duties and excise taxes, as well as the direct shipping costs incurred to make products available at the different points of sale.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment are recognized at cost and amortized over their estimated useful life. Amortization is calculated using the straight-line method. The following annual rates are used:

Buildings	2.5% and 10%
Furniture, equipment	Rate varying between 2.8% and 33%
Rolling stock	Rate varying between 10% and 30%
Leasehold improvements	According to the terms of the leases, which vary from 5 to 15 years
Paving and parking	8%

Building rented under a capital lease

The building rented under a capital lease is recognized at cost, which is the present value of the minimum payments required under the lease. Amortization on the building is calculated using the straight-line method at an annual rate of 2.5%.

Intangible assets

Intangible assets, consisting of software and user licences, are recorded at cost. Cost includes expenses related directly to the acquisition and development of software for internal use. These assets are amortized, starting on the date they are put into service, on a straight-line basis over their estimated useful lives. The amortization periods are as follows:

Software and acquired licences	3 to 5 years
Internally developed software	3 to 10 years

Impairment of long-lived assets

Long-lived assets are tested for recoverability when events or changes in circumstance indicate that their carrying value may not be recoverable. An impairment loss is recognized when the carrying value exceeds the undiscounted cash flows resulting from their use and eventual disposal. The impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value.

Employee benefit plans

Cumulative sick leave credits

The SAQ administers a defined benefit plan that guarantees most of its employees the payment of sick leave credits. The cost of future benefits in the form of payment of sick leave credits earned by SAQ employees participating in the plan is determined using actuarial calculations in accordance with the projected benefit method prorated on years of service and charged to the statement of earnings as employees render the service. These actuarial calculations take into account the most likely assumptions established by management with respect to the compensation increase, the age of retirement and the rate at which sick leave credits are used.

The SAQ amortizes the unrecognized cumulative net actuarial gains and losses that are greater than 10% of the benefit obligation of cumulative sick leave credits over the average remaining service period of active employees participating in the plan. For the year ended March 28, 2009, this period was 14 years (16 years for fiscal 2008).

Pension plans

The employees of the SAQ participate in pension plans for government employees and public organizations. These plans, administered by the Commission administrative des régimes de retraite et d'assurances, are defined benefit plans that guarantee the payment of pension and death benefits that are indexed annually. Defined contribution plan accounting is applied to these plans because the SAQ does not have enough information to apply defined benefit plan accounting.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Employee benefit plans (cont'd)***Pension plans (cont'd)*

The SAQ also administers a supplemental pension plan for senior management. This plan takes into account the years of service and the average of the three highest annual salaries earned by the employee over the course of their career. It is a defined benefit pension plan that also guarantees the payment of pension and death benefits that are indexed annually. The actuarial valuation of the accrued benefit obligation related to the pension benefits is established using the projected benefit method prorated on the number of years of service. The evaluation was carried out using management's best estimate of the future changes in salaries, retirement age and other actuarial factors.

The excess of net cumulative actuarial gains (net cumulative actuarial losses) over 10% of the accrued benefit obligation is amortized over the average remaining service period of the active employee group covered by the plan. For the year ended March 28, 2009, this period was 4.1 years (4.7 years for fiscal 2008).

4. CHANGES IN ACCOUNTING POLICIES**Year ended March 28, 2009****Capital disclosures**

On March 30, 2008, in accordance with the transitional provisions, the SAQ applied the new recommendations of Section 1535, "Capital Disclosures," of the Canadian Institute of Chartered Accountants (CICA) Handbook. This section, effective for years beginning on or after October 1, 2007, establishes standards for disclosing information about an entity's capital and how it is managed. This information is provided in Note 18 – Capital Management. Application of the new accounting standard has had no impact on the SAQ's financial results.

Inventories

On March 30, 2008, in accordance with transitional provisions, the SAQ applied the new recommendations of Section 3031, "Inventories," of the CICA Handbook. This new section, effective for fiscal years beginning on or after January 1, 2008, replaces Section 3030 of the same name. This section provides guidance on the determination of the cost of inventories and the charging of overhead and other costs to inventories, including any write-down to net realizable value. The recording of a reversal of a previous write-down is required when the value of inventories increases. More detailed information about inventories and the cost of sales must also be provided. Given the more restrictive provisions concerning the determination of costs, the SAQ has changed its policy on how to allocate the cost of freight out, such that the direct shipping costs incurred to make inventories available at the different points of sale are now allocated to the cost of inventories and, as a result, to the cost of sales. Previously, these costs were recorded as operating expenses.

The transitional adjustments resulting from the application of Section 3031 required the recording, at the start of the year, of a \$0.98 million increase in opening inventory and retained earnings balances on the SAQ's consolidated balance sheet. Figures from prior periods were not restated, as permitted upon application of this section. The direct shipping cost allocated to the cost of inventories held as at March 28, 2009 was \$1.01 million.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

4. CHANGES IN ACCOUNTING POLICIES (cont'd)**Year ended March 28, 2009 (cont'd)****Inventories (cont'd)**

The new accounting treatment applied to direct shipping costs had the effect of increasing (decreasing) the following items in the 2009 consolidated statement of earnings.

	<u>2009</u>
Cost of sales	<u>14 778</u>
Selling and marketing, distribution and administrative expenses	
Compensation and employee social benefits	(7 368)
Equipment use and supply expenses	(3 484)
Freight out and communications	<u>(3 926)</u>
	<u>(14 778)</u>

Financial instruments

On March 30, 2008, in accordance with transitional provisions, the SAQ applied the new recommendations of Section 3862, "Financials Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation," of the CICA Handbook. These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation."

Section 3862 requires companies to provide more information about the risks arising from financial instruments and non-financial derivatives, such as credit risk, liquidity risk and market risk as well as the methods used to detect, monitor and manage these risks. Section 3863 carries forward unchanged the requirements of Section 3861 regarding the presentation of financial instruments and non-financial derivatives. These new standards had no impact on the SAQ's financial results. These disclosures are presented in Note 22 – Risk Management.

Future fiscal years**Goodwill and intangible assets**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." The new section sets out the recognition, measurement and presentation standards applicable to goodwill and intangible assets, including intangible assets developed internally. This section is applicable to fiscal years beginning on or after October 1, 2008.

The requirements of Section 3064 will apply to the SAQ's interim and annual consolidated financial statements for fiscal years beginning on or after March 29, 2009. The SAQ does not expect that adopting these new sections will have a significant impact on its earnings, financial position, or future cash flows.

International Financial Reporting Standards (IFRS)

In January 2006, Canada's Accounting Standards Board (AcSB) announced its decision to replace Canadian GAAP with International Financial Reporting Standards (IFRS) for all Canadian publicly accountable enterprises. The SAQ will therefore be required to report under IFRS. IFRS will introduce significant changes with respect to the recognition, measurement, presentation and disclosure of several accounting items. In February 2008, the AcSB confirmed that the affected enterprises will need to complete the changeover to IFRS in their interim and annual financial statements for fiscal periods commencing on or after January 1, 2011 (March 27, 2011 for the SAQ).

The SAQ is monitoring this transition closely and analyzing the impact of these new accounting standards on its consolidated financial statements.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

5. NET SALES, COST OF SALES AND GROSS MARGIN

	2009			2008		
	Outlets and specialized centres	Wholesale grocers	Total	Outlets and specialized centres	Wholesale grocers	Total
Net sales	2 142 187	276 915	2 419 102	2 029 458	264 450	2 293 908
Cost of sales	<u>1 002 534</u>	<u>140 669</u>	<u>1 143 203</u>	<u>921 776</u>	<u>133 023</u>	<u>1 054 799</u>
Gross margin	<u>1 139 653</u>	<u>136 246</u>	<u>1 275 899</u>	<u>1 107 682</u>	<u>131 427</u>	<u>1 239 109</u>

The SAQ's net sales do not include beer sales made to holders of a brewer's permit or to holders of a beer distributor's permit. The brewers and beer distributors sell and deliver, in the province of Quebec, beers produced in other Canadian provinces or abroad, either by themselves or by affiliated companies. These products must be bought exclusively from the SAQ, which acts as an agent between the suppliers and the brewers and beer distributors. These sales transactions do not generate any gross margins for the SAQ. The SAQ does, however, collect service fees for them. The net sales and cost of sales arising from these transactions totalled \$229.9 million in fiscal 2009 (\$209.3 million in fiscal 2008).

6. SELLING AND MARKETING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

	2009	2008
Compensation and employee social benefits	319 652	316 876
Building occupancy expenses	66 971	63 744
Equipment use and supply expenses	20 625	22 341
Freight out and communications	8 916	11 379
Other operating expenses	<u>66 090</u>	<u>61 116</u>
	<u>482 254</u>	<u>475 456</u>

7. FINANCING EXPENSES

Financial expenses related to "Other financial liabilities"	2009	2008
Interest on loans taken out with the Caisse de dépôt et placement du Québec, a company under common control	671	1 596
Other interest on short-term loans	<u>1 431</u>	<u>2 438</u>
	2 102	4 034
Interest relating to a capital lease obligation	<u>589</u>	<u>716</u>
	2 691	4 750
Less : Interest on investments, bank balances and others	<u>(231)</u>	<u>(417)</u>
	<u>2 460</u>	<u>4 333</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

8. ACCOUNTS RECEIVABLE

	2009	2008
Wholesale grocers	15 416	11 824
Licensed establishments, institutions and other commercial accounts	29 430	34 854
	<u>44 846</u>	<u>46 678</u>

9. INVENTORIES

	2009	2008
Alcoholic beverages	292 159	274 712
Miscellaneous supplies	2 741	2 494
	<u>294 900</u>	<u>277 206</u>

10. PROPERTY, PLANT AND EQUIPMENT

	2009		2008
	Cost	Accumulated amortization	Net value
Land	10 706		10 706
Buildings	129 696	36 135	93 561
Furniture and equipment ¹	195 246	136 381	58 865
Rolling stock	16 477	11 214	5 263
Leasehold improvements ¹	48 761	31 403	17 358
Paving and parking	4 133	2 929	1 204
	<u>405 019</u>	<u>218 062</u>	<u>186 957</u>
Building rented under a capital lease	16 280	13 024	3 256
	<u>421 299</u>	<u>231 086</u>	<u>190 213</u>
			<u>192 454</u>

1 Work related to outlet development with a capitalized value of \$7.7 million was in progress as at March 28, 2009 (\$4.3 million as at March 29, 2008) and was not amortized.

The total cost and total accumulated amortization of property, plant and equipment as at March 29, 2008 was \$405.2 million and \$212.7 million, respectively.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

11. INTANGIBLE ASSETS

	2009		2008
	Cost	Accumulated amortization	Net value
Acquired software and licences	12 911	11 565	1 346
Internally developed software ¹	127 296	109 267	18 029
	<u>140 207</u>	<u>120 832</u>	<u>21 913</u>

1 Internally developed software with a capitalized value of \$10.2 million was in progress as at March 28, 2009 (\$3.9 million as at March 29, 2008) and was not amortized.

The total cost and total accumulated amortization of intangible assets as at March 29, 2008 was \$140.9 million and \$119.0 million, respectively.

12. LOANS

	2009	2008
Loans	<u>36 998</u>	<u>42 989</u>

As at March 28, 2009, loans consisted of two short-term loans totalling \$37.0 million, including one \$29.5 million loan from Caisse de dépôt et placement du Québec, a company under common control not included in the Government of Quebec's reporting entity (two loans at March 29, 2008 totalling \$43.0 million, including one \$19.5 million loan from Caisse de dépôt et placement du Québec). These loans bear interest at fixed rates of 0.51% and 0.52% (3.54% and 3.56% in 2008) and mature in four days or less (four days or less in 2008).

At March 28, 2009, the SAQ had two bank credit facilities, including a \$10 million line of credit maturing on September 30, 2009, with an option to extend until September 30, 2010, at the SAQ's discretion. Amounts drawn on this line of credit bear interest at the prime rate, which was 2.5% as at March 28, 2009 (5.25% at March 29, 2008). At that date, an amount of \$0.4 million had been drawn (fully available as at March 29, 2008). A second credit facility of \$300 million was fully available at March 28, 2009. This credit is available in the form of bank overdrafts bearing interest at the prime rate or in the form of advances bearing interest at a fixed rate corresponding to the financial institution's cost of funds plus a margin to be determined. This credit is repayable on demand.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	135 711	136 040
Government taxes and duties payable	87 793	81 945
Compensation and employee social benefits payable	76 312	83 122
Current portion of a capital lease obligation	<u>1 374</u>	<u>1 231</u>
	<u>301 190</u>	<u>302 338</u>

The SAQ has agreed to help fund various programs aimed at protecting and improving the environment. To accomplish this, it devotes a portion of its sales to this purpose. The excess of the accrued deductions from sales over the charges incurred, presented in accounts payable and accrued liabilities, totalled \$8.9 million as at March 28, 2009 (\$9.0 million as at March 29, 2008).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

14. CAPITAL LEASE OBLIGATION

	<u>2009</u>	<u>2008</u>	
The obligation related to the rental of a building, repayable through April 11, 2012 in monthly instalments of \$0.15 million, including interest calculated at an annual rate of 11%, capitalized semi-annually.	4 672	5 903	
Less: Current portion	<u>(1 374)</u>	<u>(1 231)</u>	
	<u>3 298</u>	<u>4 672</u>	
Payments in future years:			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	1 374	446	1 820
2011	1 533	287	1 820
2012	1 711	109	1 820
2013	<u>54</u>	<u>1</u>	<u>55</u>
	4 672	843	5 515

15. INTERESTS IN A JOINT VENTURE

The SAQ holds a 50% interest in Société d'investissement M.-S., S.E.C. The main items of this joint venture that are included in the consolidated financial statements are presented below.

	2009	2008
Earnings		
Operating expenses	583	569
Interest income	(5)	(4)
Amortization	80	158
	658	723
Other revenue	699	586
Net earnings (loss)	<u>41</u>	<u>(137)</u>
Balance sheet		
Current assets	295	256
Long-lived assets	18	99
	<u>313</u>	<u>355</u>
Current liabilities	212	295
Shareholder's equity	101	60
	<u>313</u>	<u>355</u>
Cash flows		
Cash flows from operating activities	<u>114</u>	<u>27</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

16. EMPLOYEE FUTURE BENEFITS**Defined benefit plans**

The employees of the SAQ participate in the Government and Public Employees Retirement Plan (RREGOP), the Civil Service Superannuation Plan (CSSP) and the Pension Plan for Management (PPM). These pension plans have defined benefits and guarantees payment of pension and death benefits. The SAQ's obligation under these plans is limited to its employer contributions. At January 1, 2008, the contribution rate for the RREGOP rose from 7.06% to 8.19% of covered payroll, whereas the contribution rate for the PPM rose from 7.78% to 10.54%. The contribution rate for the CSSP remained at 7.25%.

For accounting purposes, the SAQ measures its accrued benefit obligations on December 31 of each year for the cumulative sick leave credit plan and at the end of each fiscal year for the supplemental pension plan for senior management. The most recent actuarial valuation for funding purposes of the cumulative sick leave credit plan was carried out on December 31, 2007 and the next valuation must be completed by December 31, 2010. The most recent actuarial valuation for funding purposes of the supplemental pension plan for senior management was carried out on March 28, 2009, and the next valuation must be completed by March 31, 2012.

Total cash payment

The total cash payment for employee future benefits for 2009, consisting of the SAQ's contributions to the government employee pension plans and the amounts paid directly to the beneficiaries of the supplemental pension plan for senior management and of the cumulative sick leave credit plan, amounted to \$16.9 million (\$13.4 million in 2008).

Reconciliation of the funded status of the employee benefit plans to the amounts recorded in the financial statements

	Cumulative sick leave credit plan		Supplemental pension plan for senior management	
	2009	2008	2009	2008
Accrued benefit obligation and funded status – deficit	21 853	26 520	3 470	3 858
Balance of unamortized amounts	(4 094)	(8 522)	(214)	(1 466)
Accrued benefit liabilities appearing on the SAQ's balance sheet	<u>17 759</u>	<u>17 998</u>	<u>3 256</u>	<u>2 392</u>

Cost of employee future benefits recognized during the fiscal year

	2009	2008
Cumulative sick leave credit plan	3 554	3 443
Supplemental pension plan for senior management	892	764
Government employee pension plans (multiemployer plans) ¹	13 053	11 073

1 Defined benefit pension plans, accounted for using defined benefit plan accounting.

Benefits paid

Benefits paid by the cumulative sick leave credits plan totalled \$3.8 million in 2009 (\$2.3 million in 2008), while those paid by the supplemental pension plan for senior management amounted to \$0.03 million (\$0.02 million in 2008).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

16. EMPLOYEE FUTURE BENEFITS (cont'd)
Significant assumptions

The significant assumptions used in accounting for employee future benefits are as follows:

	Cumulative sick leave credit plan		Supplemental pension plan for senior management	
	2009	2008	2009	2008
Accrued benefit obligation at fiscal year-end				
Discount rate	6.75%	5.00%	7.00%	5.00%
Rate of compensation increase	3.00%	3.00%	3.50%	3.50%
Rate of use of sick leave credits	*	*		
* From 45% to 65% depending on the employee group				
Benefit costs for the fiscal year				
Discount rate	5.00%	5.00%	5.00%	5.00%
Rate of compensation increase	3.00%	3.00%	3.50%	3.50%
Rate of use of sick leave credits	*	*		
* From 45% to 65% depending on the employee group				

17. SHAREHOLDER'S EQUITY
Share capital

The SAQ is a business corporation whose shares are part of the public domain and are allotted to the Quebec Minister of Finance. The SAQ's authorized share capital consists of 300 000 shares having a par value of \$100 each and that were issued and paid as at March 28, 2009, and March 29, 2008.

Retained earnings

Under the *Act respecting the Société des alcools du Québec*, the amount of dividends paid by the SAQ is set by the Quebec Minister of Finance, who determines the terms of payment. The declared dividends are deducted from the retained earnings of the fiscal year in which they were declared.

For fiscal 2009, the Quebec Minister of Finance declared a dividend of \$806.0 million (762.0 million in 2008).

Accumulated other comprehensive income

During the fiscal years ended March 28, 2009 and March 29, 2008, the SAQ had no transactions impacting comprehensive income and, consequently, had no opening or closing balances for accumulated other comprehensive income.

18. CAPITAL MANAGEMENT

The SAQ's capital includes shareholder's equity, the capital lease obligation, the dividend payable and loans. The SAQ manages its capital such that it meets the requirements of its shareholder, safeguards its funds at all times and sustains its growth. It maintains a strict management framework to ensure that it effectively meets the purposes set out in its incorporating act.

The SAQ is fully responsible for financing its activities. During the fiscal year, it pays the dividend to its shareholder in the form of periodic advances. Due to this income distribution method, the SAQ must rely on outside sources of financing. To this end, the SAQ is authorized by its Board of Directors and the Government of Québec to contract short-term loans to a maximum amount outstanding of \$400 million. This limit was respected during the year.

The SAQ is not subject to other requirements concerning the use of outside financing sources.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

18. CAPITAL MANAGEMENT (cont'd)

At fiscal year-end, the capital structure as defined by the SAQ was as follows:

	2009	2008
Shareholder's equity	44 808	43 114
Capital lease obligation ¹	4 672	5 903
Dividend payable	183 000	179 000
Loans	36 998	42 989
	<u>269 478</u>	<u>271 006</u>

1 Including current portion.

19. CONTINGENCIES AND COMMITMENTS**Contingencies**

In the normal course of its business, the SAQ is exposed to various claims and lawsuits. In management's opinion, a sufficient provision has been made for any disbursements that might arise from these claims, and therefore management does not foresee any significant unfavourable impact on the SAQ's financial position or consolidated operating results.

Commitments

Under its operating leases, the SAQ is committed to paying a total amount of \$313.3 million for the leasing of outlets and certain warehouses. Payments in future years amount to:

2010	42 202
2011	41 752
2012	36 567
2013	32 175
2014	28 610
2015-2024	129 970

Environment

The SAQ's activities are subject to environmental laws, regulations and guidelines enacted by the various governments. Management considers that the environmental risks are being handled in an adequate manner and that no current or potential liability exists with respect to these risks.

20. CASH FLOW INFORMATION

	2009	2008
Interest paid included in cash flows from operating activities	<u>2 700</u>	<u>4 772</u>

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

March 28, 2009

(in thousands of dollars)

20. CASH FLOW INFORMATION (cont'd)

The net change in non-cash working capital items breaks down as follows:

	2009	2008
Accounts receivable	1 832	(1 690)
Inventories	(16 714)	(39 192)
Deposits and prepaid expenses	12 823	1 556
Accounts payable and accrued liabilities	(3 720)	46 278
	<u>(5 779)</u>	<u>6 952</u>
Non-cash investing activities:		
Acquisitions of intangible assets and property, plant and equipment financed by accounts payable and accrued liabilities	<u>2 429</u>	<u></u>

21. FINANCIAL INSTRUMENTS**Fair value of financial instruments**

	2009		2008	
	Fair value	Book value	Fair value	Book value
Capital lease obligation	<u>5 228</u>	<u>4 672</u>	<u>6 622</u>	<u>5 903</u>

The fair value of the capital lease obligation is the present value of future monthly payments under current financing agreements, at interest rates offered on the market to the SAQ for loans with similar conditions and maturity dates, capitalized semi-annually and maturing in 2012. That rate was 3.66% in 2009 (5.29% in 2008).

The book value of the other financial instruments maturing in the short term is presumed to equal fair value. These financial instruments include cash, accounts receivable, loans, accounts payable and accrued liabilities (excluding government taxes and duties payable and the current portion of a capital lease obligation) and the dividend payable.

22. RISK MANAGEMENT**Financial risk management objectives and policies**

The SAQ is exposed to a variety of financial risks that stem from its operating, investing and financing activities. The SAQ's management manages these risks.

The SAQ does not enter into financial instrument contracts or agreements, including financial derivatives, for speculative purposes.

Financial risks*Interest rate risk*

Bank deposits and certificates of deposit as well as loans and amounts drawn on credit facilities, contracted on a daily basis, expose the SAQ to cash flow risk resulting from interest rate fluctuations. For fiscal year 2009, the average balance of these financial assets and liabilities corresponds to a net loan of \$76.4 million (\$90 million in 2008). Financial liabilities bore interest at rates ranging from 0.51% to 5.25% during the year (3.53% to 6.25% in 2008) and had maturities ranging from 1 to 8 days (1 to 29 days in 2008).

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

22. RISK MANAGEMENT (cont'd)**Financial risks** (cont'd)*Interest rate risk* (cont'd)

For fiscal 2009, if the interest rates on its financial assets and liabilities had varied by 50 basis points upwards or downwards, the SAQ's net earnings would have been higher or lower by \$0.4 million, respectively (\$0.5 million for fiscal 2008).

The capital lease obligation bears a fixed interest rate and exposes the SAQ to the risk that market interest rates will be lower than the interest rates linked to this liability. The effective interest rate for this obligation is 11.3%.

The SAQ's other financial assets and liabilities do not present any interest rate risk, as they are non-interest-bearing.

The SAQ does not use derivative financial instruments to reduce its exposure to interest rate risk.

Foreign exchange risk

The SAQ is exposed to foreign exchange risk due to certain accounts payable in foreign currencies. At March 28, 2009, these accounts payable totalled €4.8 million and US\$1.5 million (€8.1 million and US\$1.0 million at March 29, 2008).

Currency purchases during the year were as follows, in Canadian dollars:

	2009	2008
Euro	221 618	204 251
U.S. dollar	31 039	19 078
Other currencies	4 973	4 249
	<u>257 630</u>	<u>227 578</u>

If the exchange rates on currencies purchased during the year had moved up or down by 5%, the SAQ's cost of sales would have been higher or lower by approximately \$13 million, respectively (\$12 million in 2008). Due to the sales price adjustment policy on the SAQ's products, which includes several adjustments over the year subject to certain conditions, the impact of such a variance on the SAQ's gross margin and net earnings would not have been significant.

The SAQ negotiates forward exchange contracts intended to partially cover the foreign exchange risk to which it is exposed. Under these contracts, it is required to buy specific amounts of currencies, mainly in euros and U.S. dollars, at exchange rates set in advance.

At March 28, 2009 and March 29, 2008, the SAQ had no outstanding forward exchange contracts.

Credit risk

Credit risk is the risk of incurring a loss if a counterparty defaults on its obligations. In general, the value presented on the SAQ's consolidated balance sheet under financial assets exposed to credit risk, less provisions for losses, is the maximum amount exposed to credit risk.

Cash flow

To reduce its credit risk exposure, the SAQ invests its cash in financial institutions that it considers to be solvent counterparties. The SAQ monitors and assesses possible changes in the status of its contracting parties and their solvency.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

22. RISK MANAGEMENT (cont'd)
Financial risks (cont'd)
Accounts receivable

The SAQ considers that its credit risk exposure related to sales of alcoholic beverages and other goods and services is limited due to the diversity and size of its customer base. The SAQ requires an accessory guarantee from some of its customers. The SAQ's policy is to have certain customers undergo a credit check. Moreover, the accounts receivable balance is managed and analyzed on a continuous basis and, consequently, the SAQ's exposure to credit losses is not significant.

The table below shows the age of accounts receivable and the related provision for bad debt. The provision has been established based on the age of the accounts and the status of customer files.

	2009	2008
7 days or less	37 927	38 569
From 8 to 30 days	6 070	6 378
More than 30 days	1 861	2 707
	<u>45 858</u>	<u>47 654</u>
Provision for bad debt	<u>(1 012)</u>	<u>(976)</u>
	<u>44 846</u>	<u>46 678</u>

Changes in the provision for bad debt are as follows:

	2009	2008
Balance, beginning of year	976	1 161
Reversal of provision	13	104
Write-off of receivables	(74)	(322)
Recognized impairment loss	97	33
Balance, end of year	<u>1 012</u>	<u>976</u>

Liquidity risk

Liquidity risk is the risk of the SAQ having difficulty meeting its commitments related to financial liabilities. The SAQ is exposed to this risk mainly through its loans, accounts payable and accrued liabilities, the dividend payable, the capital lease obligation and contractual commitments.

The financial liabilities have a contractual maturity of less than one year, except for the capital lease obligation described in Note 14 and the commitments under operating leases described in Note 19.

Managing liquidity risk consists of maintaining a sufficient amount of cash and ensuring the SAQ has financing sources in the form of loans for sufficient authorized amounts. The SAQ prepares budget and cash estimates to ensure it has the necessary funds to meet its obligations.

The SAQ's liquidity risk exposure is reduced by a significant volume of cash flow from operations, preauthorized sources of financing and management of short-term debt at floating rates. The SAQ considers that it is able to honour financial liabilities requiring disbursements in the short term.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

March 28, 2009

(in thousands of dollars)

23. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements and recorded at exchange amount, the SAQ is related to all Government of Quebec ministries and special funds, as well as to all agencies and enterprises directly or indirectly controlled by the Government of Quebec or subject to either joint control or significant joint influence on the part of the Government of Quebec. The exchange amount is the amount established and agreed to by the parties. The SAQ has not concluded any business transactions with these related parties other than within the normal course of business and under usual commercial terms. These transactions have not been disclosed separately in the financial statements.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

SOCIÉTÉ DES ALCOOLS DU QUÉBEC**MANAGEMENT'S REPORT**

The following consolidated financial statements have been prepared by the management of the Société des alcools du Québec (the SAQ) and approved by its Board of Directors. Management is responsible for the data and representations contained in these consolidated financial statements and in the other sections of the annual report. The consolidated financial statements have been prepared in accordance with the policies and procedures established by management and with Canadian generally accepted accounting principles. They reflect management's best judgement and estimates based on currently available information.

As part of its duties, the management of the SAQ maintains internal control designed to provide reasonable assurance that the company's assets are adequately safeguarded, that all transactions are duly authorized and that the accounting records constitute a reliable basis for the preparation of accurate and timely financial statements. Moreover, the internal audit department reviews accounting procedures and management systems on a selective basis. Its findings and recommendations are then submitted to management, which acts accordingly. Management acknowledges that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors of the SAQ is responsible for ensuring that management fulfils its obligations for financial reporting and internal controls. The Board performs this function through its Audit Committee, which consists solely of independent directors. The Board periodically reviews the consolidated financial statements and studies the reports on the accounting policies and procedures and the internal control systems. The external auditors may, without restriction, meet the Audit Committee to discuss any audit-related issues.

The consolidated financial statements have been audited by the Auditor General of Quebec and by the firm Raymond Chabot Grant Thornton LLP, in accordance with Canadian generally accepted auditing standards. Their responsibility is to express a professional opinion on whether the financial statements are fairly presented. The Auditors' Report, shown opposite, specifies the nature and scope of their audit and presents their opinion on these financial statements.

Philippe Duval
President and Chief Executive Officer

Richard Genest
Vice-President and Chief Financial Officer

Montreal, May 15, 2009

SOCIÉTÉ DES ALCOOLS DU QUÉBEC

AUDITORS' REPORT

To the Minister of Finance,

We have audited the consolidated balance sheet of the Société des alcools du Québec as at March 28, 2009, and the consolidated statements of earnings and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Société des alcools du Québec'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Société des alcools du Québec as at March 28, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), we report that, in our opinion, considering the adoption of the new accounting standards with respect to inventories as describe in Note 4, these principles have been applied on a basis consistent with that of the preceding year.

The Auditor General of Québec,
Renaud Lachance, CA auditor

Raymond Chabot Grant Thornton, LLP¹
¹Chartered accountant auditor permit n° 7023

Montréal, May 15, 2009

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
(R.S.Q., c. S-13.01)

STATEMENT OF OPERATIONS
for the year ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Fishing and vacation resorts	32 988	32 061
Hunting	14 856	16 046
Food services, boutiques and accommodation stores	16 113	16 011
Other outdoor activities	15 735	15 476
Concessions and miscellaneous	4 923	4 002
Subsidies	2 446	2 957
Management fees	<u>23 902</u>	<u>22 390</u>
	<u>110 963</u>	<u>108 943</u>
EXPENSES		
Salaries and fringe benefits	56 371	50 876
Maintenance and energy	17 601	18 418
Overhead and administrative expenses	9 373	10 216
Resale products	8 953	9 013
Selling cost and marketing expenses	6 268	5 968
Amortization (Note 5)	6 246	5 577
Financing costs (Note 6)	1 267	1 877
Share in subsidiary's results	<u>51</u>	<u>(25)</u>
	<u>106 130</u>	<u>101 920</u>
NET INCOME	<u><u>4 833</u></u>	<u><u>7 023</u></u>

The notes are an integral part of these financial statements.

CUMULATED DEFICIT
for the years ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	(20 525)	(27 548)
Net income	<u>4 833</u>	<u>7 023</u>
CLOSING BALANCE	<u><u>(15 692)</u></u>	<u><u>(20 525)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

STATEMENT OF CASH FLOWS
for the years ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income	4 833	7 023
Amortization (Note 5)	6 246	5 577
Share in affiliated company's results	51	(25)
Change in provision for vacation time and sick leave	56	(253)
Short-term change in items (Note 7)	<u>(2 201)</u>	<u>(6 163)</u>
	<u>8 985</u>	<u>6 159</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(18 412)	(12 415)
Proceeds from sale of assets	151	95
Advance to related corporation (Note 14)	(29 617)	(14 597)
Advance to affiliated company	<u>52</u>	<u>68</u>
	<u>(47 826)</u>	<u>(26 849)</u>
FINANCING ACTIVITIES		
Subsidies for capital assets cashed	7 501	7 642
Net change in borrowings	31 997	14 760
Long-term debt repayment	<u></u>	<u>(200)</u>
	<u>39 498</u>	<u>22 202</u>
CHANGE IN CASH FLOWS	657	1 512
OPENING OUTSTANDING CHEQUES MINUS CASH	<u>(438)</u>	<u>(1 950)</u>
CLOSING CASH (OUTSTANDING CHEQUES MINUS CASH)	<u>219</u>	<u>(438)</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2009	2008
ASSETS		
Current assets		
Cash on hand	219	
Accounts receivable	4 739	5 379
Gouvernement du Québec subsidies receivable	8 623	8 421
Inventories	1 953	1 961
Prepaid expenses	2 158	2 013
Advance to related company (Note 14)	51 093	21 476
	68 785	39 250
Gouvernement du Québec subsidies receivable	22 459	26 839
Share in and advance to affiliated company	280	383
Capital assets (Note 5)	171 511	166 336
	263 035	232 808
LIABILITIES		
Current liabilities		
Outstanding cheques minus cash on hand		438
Accounts payable and accrued liabilities	13 178	15 693
Customer deposits	12 419	12 063
Borrowings (Note 8)	100 084	
	125 681	28 194
Borrowings (Note 8)		68 087
Provision for vacation time and sick leave (Note 13)	1 777	1 721
Deferred subsidies	79 682	83 744
	207 140	181 746
SHAREHOLDER'S EQUITY		
Capital stock (Note 9)	71 587	71 587
Cumulated deficit	(15 692)	(20 525)
	55 895	51 062
	263 035	232 808

COMMITMENTS AND CONTINGENCIES (Notes 11 and 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Georges Laberge
Yvan Bilodeau

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars)

1. INCORPORATION AND PURPOSE

The Société was incorporated under the *Act respecting the Société des établissements de plein air du Québec* (R.S.Q., c. S-13.01) to administer, operate and develop, alone or jointly, the recreational or tourist facilities, immovable or territories transferred to it under this Act, and to devise, erect, administer, operate and develop, alone or jointly, any other recreational or tourist facility, immovable or territory.

Under its incorporating legislation, all of the Société's shares are attributed to the Minister of Finance. Consequently, the Société does not pay income tax.

2. ACCOUNTING POLICIES

a) Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The main elements for which estimates have been used are the service life of capital assets and the provision for sick leave and vacation time.

b) Revenue reporting

Revenues from delivery of services related to fishing, vacationing, hunting and other activities are posted when the services are rendered.

The Société posts revenues from the sale of products when all of the risks and advantages inherent in the property have been transferred to the client.

Appropriated subsidies come from the Gouvernement du Québec and are recognized as revenues in the fiscal year in which the related expenses are incurred.

Management fees come from the Gouvernement du Québec and the related corporation to cover expenses linked to conservation, education, maintenance and operations of the national parks network and the Aquarium du Québec and are recognized as revenues in the fiscal years in question.

c) Inventories

Inventories are assessed at cost or net realization value, whichever is less. Cost is determined using the first in, first out (FIFO) method.

d) Share in affiliated company and joint venture

The Société recognizes its share in the affiliated company at consolidation value and its share in the joint venture using the proportionate consolidation method.

e) Financial instruments

i) Categories of financial instruments

Assets held to maturity

Assets held to maturity are non-derivative financial assets, apart from loans and accounts receivable, whose payments are determined or can be determined with a fixed deadline and that the Société has the definite intention and ability to keep until they mature. The Société classified the advance to an affiliated company in this category.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)
e) Financial instruments (cont'd)
i) Categories of financial instruments (cont'd)
Assets and liabilities held for transaction purposes

Assets and liabilities held for transaction purposes are financial instruments held primarily for resale in the short term in order to make a profit and belong to a portfolio of identified financial instruments managed together and presenting the indications of a recent short-term profit-making profile. This category also includes assets and liabilities not meeting the above-mentioned criteria but that the Société has chosen to designate irrevocably as held for transaction purposes. In this category, the Société has classified cash on hand, accounts receivable, the advance to a related corporation, outstanding cheques minus cash, accounts payable and accrued liabilities and client deposits.

Other liabilities

Other liabilities include all non-derivative financial liabilities not classified as liabilities held for transaction purposes. The Société classified the borrowings debt in this category.

ii) Initial measurement

Financial instruments are recognized at fair value the date of the transaction. Transaction costs are posted to net results.

iii) Subsequent measurement

Assets held until maturity and other financial liabilities not held for transaction purposes are measured at amortized cost using the effective interest rate, where applicable.

Assets and liabilities held for transaction purposes are measured at their fair value and the gains and losses resulting from their re-measurement at fair value are posted to net results.

iv) Fair value

The fair value is the amount of the consideration that the parties having jurisdiction agree on acting freely and under fully competitive conditions. These values are determined using measurement methods like actualization of future cash flows at current interest rates. Some measurements are made by the Société using commonly employed measurement methods.

v) Permanent decline in value of financial assets

For financial assets other than those held for transaction purposes, the Société evaluates whether there is an objective indication that these assets have depreciated. If so, the amount that can be recovered is calculated. If it is lower than the assets' book value, a loss for depreciation is reported in the statement of operations.

vi) Comprehensive income

During the fiscal year ended March 31, 2009, the Société did not carry out any operations affecting comprehensive income and no opening or closing comprehensive income balance has been presented.

f) Capital assets and amortization

Capital assets are recorded at cost and amortized using the straight-line method and the following rates:

• Buildings and infrastructures	between 4% and 10%
• Automotive equipment, furniture, equipment and leasehold improvements	between 10% and 33%

Capital assets are reviewed for amortization when there are indications that it may not be possible to recover their book value.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**g) Deferred subsidies**

Capital asset subsidies are posted to deferred subsidies and transferred to operations as the related capital assets are amortized.

h) Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

On April 1, 2009, the Société adopted Section 1535, "Capital Disclosures", Section 3031, "Inventories", Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation". Section 1535 seeks to inform users about the entity's capital and how it is managed, Section 3031 prescribes the accounting treatment for inventories, notably the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value, and Sections 3862 and 3863 replace Section 3861, entitled "Financial Instruments – Disclosure and Presentation". These sections modify and increase requirements for information to be disclosed. Sections 3862 and 3863 accord greater importance to the information to disclose, enabling users to assess the nature and scope of the risks resulting from the financial instruments to which the Société is exposed and how it manages these risks.

Given that sections 1535, 3862 and 3863 are limited to disclosure of additional information, they have no impact on the Société's performance. The adoption of Section 3031 has not affected the Société's financial statements.

4. INFORMATION ON CAPITAL

The Société defines its capital as the shareholders' equity.

Société shares belong to the public domain and are attributed to the Minister of Finance.

Under the *Act respecting the Société des établissements de plein air du Québec*, dividends paid, if applicable, are set by the Gouvernement du Québec and not the directors. The Société is subject to no other requirement regarding capital from outside sources.

The Société manages its capital by carefully managing its revenues, expenses, assets, liabilities, investments and other financial transactions to ensure that it effectively carries out the intentions specified in its incorporating act.

5. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net value
Land	2 481		2 481
Recreational or tourist territories	13 851		13 851
Buildings and infrastructures	211 650	71 111	140 539
Rolling stock	18 112	9 458	8 654
Furniture, equipment and leasehold improvements	28 240	22 254	5 986
	<u>274 334</u>	<u>102 823</u>	<u>171 511</u>
			<u>166 336</u>

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

5. CAPITAL ASSETS (cont'd)

Amortization of \$6 246 000 (2008: \$5 577 000) comprises amortization of capital assets in the amount of \$13 786 000 (2008:\$13 235 000) minus amortization of deferred subsidies in the amount of \$7 540 000 (2008: \$7 658 000).

Capital assets acquisitions of \$18 412 000 (2008: \$12 415 000) include changes in accrued liabilities of \$798 000 (2008: \$711 000).

In fiscal 2008-2009, subsidies of \$3 576 000 (2008: \$5 570 000) were granted for work on immoveables and posted to deferred subsidies.

Capital assets classified under "Buildings and infrastructures" and "Furniture, equipment and leasehold improvements," representing \$3 325 000 and \$497 000 respectively, were not amortized, given that they were not operational at fiscal year-end.

6. FINANCING COSTS

Financing costs of \$1 267 000 (2008: \$1 877 000) include interest on borrowings of \$2 611 000 (2008: \$2 449 000) and interest income of \$1 344 000 (2008: \$572 000).

Interest paid by the Société during the fiscal year totalled \$2 296 000 (2008: \$2 435 000).

7. CHANGE IN SHORT-TERM ITEMS

	2009	2008
Accounts receivable	640	(2 953)
Gouvernement du Québec subsidies receivable	253	(527)
Inventories	8	104
Prepaid expenses	(145)	(405)
Account payable and accrued liabilities	(3 313)	(3 733)
Customer deposits	356	1 351
	<u>(2 201)</u>	<u>(6 163)</u>

8. BORROWINGS

	2009	2008
Short-term		
Bank acceptances, in the amount of \$100 084 000, maturing between April 2009 and January 2010 and bearing interest at rates varying from 0.77% to 1.91%. ¹	100 084	

Long-term

Bank acceptances, in the amount of \$66 719 000 bearing interest at rates varying from 3.19% to 4.03% and loan at the prime rate in the amount of \$1 368 000, maturing during the fiscal year	68 087

1 The Société negotiated credit facilities with financial institutions and the Financing Fund, allowing it to borrow, as it wished, various amounts in different forms to a maximum of \$233 000 000 which the Government authorized it to borrow.

No repayment of borrowings is planned for the coming fiscal year, assuming that credit facilities are renewable at the same conditions.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

9. CAPITAL STOCK

	2009	2008
Authorized:		
Pursuant to its incorporating legislation, the Société is authorized to issue to the Minister of Finance 750 000 common voting shares with a par value of \$100		
Issued:		
268 617 shares issued as payment for the transfer of assets	26 862	26 862
447 250 shares paid in cash	44 725	44 725
	<u>71 587</u>	<u>71 587</u>

10. PROPORTIONAL CONSOLIDATION OF CO-ENTERPRISE

At March 31, 2009, the share of each of the co-enterprise's elements reported using the proportional consolidation method break down as follows:

	2009	2008
Balance sheet		
Prepaid expenses	4	1
Capital assets		1
Accounts payable and accrued liabilities	32	53
Customer deposits	143	148
Operations		
Revenues	442	466
Expenses	378	413
Cash flows related to operating activities	36	26

11. COMMITMENTS

The Société is bound by commitments for a balance of \$6 323 000, excluding escalator clauses on leases. The minimum lease payments for the next five fiscal years are:

2010	\$1 681
2011	1 408
2012	970
2013	624
2014	626

Further, on March 31, 2009, the Société committed to supporting the costs for capital assets for the next fiscal year in the amount of \$1 205 000.

12. CONTINGENCIES

The Société may, on occasion, be subject to claims and lawsuits in the course of its business. The outcome of these claims is often uncertain. Management feels that sufficient provision was recorded in the Société's financial statements at fiscal year-end and that the final settlement of these contingencies will have no negative effect on the Société's financial position.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009
(in thousands of dollars)

13. FUTURE FRINGE BENEFITS
a) Pension plans

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) and Pension Plan of Management Personnel (PPMP), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

The Société's contributions charged to the year-end statement totalled \$2 368 000 (2008: \$1 936 000). Its liability towards these Government plans is restricted to its employer contributions.

b) Provision for sick leave and vacation time

As of this fiscal year, the provision for sick leave is based on an actuarial method, whereas previously it was based on the cost of unused sick leave accumulated by employees.

	2009	2008
Opening balance	5 470	5 869
Charges for the year	5 951	4 602
Benefits paid during the year	(5 656)	(5 001)
Closing balance	5 765	5 470

The provision for sick leave and vacation time payable in the short term—\$3 988 000 (2008: \$3 749 000)—is included under "Accounts payable and accrued liabilities".

The short-term portion of the provision for sick leave and vacation time comprises days accumulated during the fiscal year, which, for the most part, will be paid at 50% if they are not used in the coming year. The long-term portion of the provision for sick leave comprises banks in which it is no longer possible to accumulate days and which, in most cases, will have been used up by the time the employee retires.

The assumptions used to establish the Société's provision for sick leave are:

Discount rate	2.85% to 3.50%
Wage growth rate	2.00% to 3.25%

14. RELATED PARTY TRANSACTIONS

At May 3, 2006, the Société signed an agreement with the Société des parcs de sciences naturelles du Québec conferring on it the mandate to manage and administer the Parc Aquarium du Québec and coordinate the plan to close the Jardin zoologique du Québec.

During the fiscal year, the Société advanced the Société des parcs de sciences naturelles du Québec \$29 617 000 (2008: \$14 597 000) with interest at an average rate of 2.96%, without repayment terms and posted interest income of \$1 314 000 (2008: \$536 000). The Société also posted management fee income of \$3 425 000 (2008: \$2 597 000).

In addition to the related party transactions disclosed above and in the financial statements, which are posted at exchange value, the Société is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

15. FINANCIAL INSTRUMENTS**Credit risk**

The financial assets' book value represents the Société's maximum credit risk exposure.

Management deems that the Société is not exposed to a major credit risk, given that it does business with a large number of clients, most of whom pay for services by credit card or debit, usually before the services are rendered. Consequently, the Société has no significant overdue accounts.

Fair value

Given that they mature in the short term or very near future, the book value of the cash on hand, accounts receivable, the advance to a related company, accounts payable and accrued liabilities, client deposits and borrowings shown in the balance sheet are close to their fair value.

The fair value of the advance to an affiliated company cannot be reasonably estimated, given that the transaction occurred between related parties.

Liquidity risk

The Société deems that it holds sufficient financial assets that are easily convertible into cash and has credit facility to ensure that it has the funds needed to meet its current and long-term financial requirements at a reasonable cost, if applicable.

Interest rate risk

The Société is exposed to an interest rate risk with regard to the advance to the related corporation and borrowings since they bear interest at varying rates.

The net effect of a 1% interest rate increase (decrease) during the fiscal year would reduce (increase) net earnings by \$428 000 (2008: \$486 000).

16. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ DES ÉTABLISSEMENTS DE PLEIN AIR DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des établissements de plein air du Québec (SÉPAQ) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. Its report states the nature and scope of its audit and its opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Yvan Bilodeau
President and Chief Executive Officer

Réal Couture, CA
Vice-chairman, Administration and Finance

Québec, May 15, 2009

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société des établissements de plein air du Québec as at March 31, 2009 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 15, 2009

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC
(R.S.Q., c. S-13.01)

STATEMENT OF OPERATIONS
for the year ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Subsidies	11 678	11 708
Amortization of deferred subsidies	161	234
Other	<u>17</u>	<u>60</u>
	<u>11 856</u>	<u>12 002</u>
EXPENSES		
Shutdown costs	1 226	1 585
Parc Aquarium du Québec management fees	3 425	2 597
Financing costs (Note 4)	1 714	3 006
Property taxes	2 586	2 053
Amortization of financing costs		126
Amortization of capital assets	<u>1 155</u>	<u>1 690</u>
	<u>10 106</u>	<u>11 057</u>
NET INCOME	<u><u>1 750</u></u>	<u><u>945</u></u>

STATEMENT OF CUMULATED DEFICIT
for the year ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	(28 169)	(29 114)
Net income	<u>1 750</u>	<u>945</u>
CLOSING BALANCE	<u><u>(26 419)</u></u>	<u><u>(28 169)</u></u>

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

BALANCE SHEET
as at March 31
(in thousands of dollars)

	2009	2008
ASSETS		
Current assets		
Accounts receivable	8	21
Subsidy receivable	91	811
Expenses deferred to coming year	1 490	538
	1 589	1 370
Capital assets (Note 5)	27 677	28 832
	29 266	30 202
LIABILITIES		
Accounts payable	761	448
Amount owed to an affiliated company (Note 1)	51 093	21 476
Long-term debt maturing in coming year (Note 6)		32 455
	51 854	54 379
Deferred subsidies	3 831	3 992
Long-term debt (Note 6)		
	55 685	58 371
CUMULATED DEFICIT	(26 419)	(28 169)
	29 266	30 202

COMMITMENTS AND CONTINGENCIES (Notes 1 and 7)

On behalf of the Board of Directors,
Denys Larose
Jean Lamy

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net results	1 750	945
Amortization of capital assets		
net deferred subsidies	994	1 456
Amortization of financing costs		126
Short-term change in items	<u>94</u>	<u>(1 456)</u>
	<u>2 838</u>	<u>1 071</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets		<u>(483)</u>
		<u>(483)</u>
FINANCING ACTIVITIES		
Long-term debt repayment	(32 455)	(15 185)
Sum cashed from affiliated company	<u>29 617</u>	<u>14 597</u>
	<u>(2 838)</u>	<u>(588)</u>
CHANGE IN CASH FLOWS		
OPENING CASH		
CLOSING CASH		

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars)

1. INCORPORATING STATUTES, NATURE OF ACTIVITIES, COMMITMENTS AND TRANSACTIONS WITH AFFILIATED COMPANIES

The Société des parcs de sciences naturelles du Québec (Société) was created on August 30, 1994 under Part III of the *Québec Companies Act* to manage the Parc Aquarium du Québec (Aquarium) and Jardin zoologique du Québec (Jardin).

In 2002, under an emphyteutic lease, the Québec Minister of Sustainable Development, the Environment and Parks and the Québec Minister of Transport assigned the immoveables of the Aquarium and Jardin to the Société for a forty-year period ending on March 31, 2042. The Société agreed to assume all building-related costs. No value was posted as contributions for these immoveables.

On May 3, 2006, the Société signed a management agreement with Sépaq and the Minister of Sustainable Development, the Environment and Parks mandating Sépaq to manage and administer the Aquarium and coordinate the Jardin shutdown plan. Under this agreement, notwithstanding the availability of budgetary appropriations, the Minister committed to paying the Société the amounts needed to meet its obligations. To do so, during the fiscal year, the Société received a subsidy of \$11 677 600 (2008: \$11 708 000) and incurred expenses of \$3 425 000 (2008: \$2 597 000) for management fees related to the Aquarium's operations.

The Société may also borrow when the annual subsidy is insufficient to cover disbursements. During the fiscal year, the Société borrowed \$29 617 000 (2008: \$14 597 000) from Sépaq at an average interest rate of 2.96% (2008: 3.86%), with no terms of repayment, and posted interest paid in the amount of \$1 314 000 (2008: \$536 000).

2. ACCOUNTING POLICIES

a) Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

b) Revenue reporting

Subsidies are reported as revenues when the expenses are recognized.

The Société reports revenues from the sale of products when all of the risks and advantages inherent in the property have been transferred to the client.

c) Capital assets and amortization

Capital assets are recorded at cost and amortized using the straight-line method and the following rates:

Buildings	3%
Parking	4%
Landscaping	7%
Furniture and equipment, rolling stock and animals	20%

Capital assets are reviewed for depreciation when there are indications that it may not be possible to recover their book value.

d) Deferred subsidies

Capital asset subsidies are recorded as deferred subsidies and transferred to operations as the capital assets to which they relate are amortized.

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

3. CHANGE IN ACCOUNTING STANDARDS

Since April 1, 2008, at the Government's request, the Société has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). This change did not affect the Société's results or cumulated deficit.

The accounting policies affected by this change in the accounting framework are disclosed below.

Financial instruments

Information related to financial instruments is no longer required since the governing standards do not apply under public sector accounting standards. This change does not affect asset or liability measurement.

4. FINANCING COSTS

Financing costs of \$1 714 000 (2008: \$3 006 000) include interest on the long-term debt of \$423 000 (2008: \$2 308 000).

5. CAPITAL ASSETS

	2009		2008
	Cost	Cumulated amortization	Net value
Buildings and parking	31 554	5 567	25 987
Landscaping	2 367	982	1 385
Furniture, equipment and rolling stock	3 533	3 228	305
Animals	430	430	
	<u>37 884</u>	<u>10 207</u>	<u>27 677</u>
			<u>28 832</u>

6. LONG-TERM DEBT

	2009	2008
Short-term borrowing guaranteed by the Gouvernement du Québec, bearing interest at rate of 5.2%, repayable in monthly instalments of \$340 927 including principal and interest, renewable in June 2008*		32 455
Minus: Portion due within one year		<u>32 455</u>
		<u></u>

* Under financial assistance agreements between the Société and the Gouvernement du Québec, the latter reimburses the Société for payments of principal and interest made to the lender.

7. CONTINGENCIES

The Société may, on occasion, be subject to claims and lawsuits in the course of its business. The outcome of these claims is often uncertain. The Société feels that sufficient provision was recorded in its financial statements at fiscal year-end and that the final settlement of these contingencies will have no negative effect on its financial position.

SOCIÉTÉ DES PARCS DE SCIENCES NATURELLES DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

8. PENSION PLAN

On April 29, 2002, the Société implemented an optional defined-benefit pension plan. The employer contribution corresponds to 5% of the employee's gross wages if the latter contributes a minimum of 5% of his/her gross wages to the plan.

The fiscal year's expense related to this pension plan is \$8 400 (2008: \$13 000).

9. NON-MONETARY OPERATIONS

The Ministère du Développement durable, de l'Environnement et des Parcs pays for a portion of the payroll and fringe benefits of certain employees assigned to the Société. Consequently, revenues and expenses include an amount of \$382 000 (2008: \$523 000).

10. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

AUDITORS' REPORT

To members of the
Société des parcs de sciences naturelles du Québec,

We have audited the balance sheet of the Société des parcs des sciences naturelles du Québec as at March 31, 2009 and the statements of operations, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of Société management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Mallette
SENCRL
Chartered Accountants

Québec, April 17, 2009

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
(R.S.Q., c. S-14)

STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
EXPENSES		
Operating expenses (Note 4)	\$54 535 263	\$52 382 788
Administrative expenses (Note 5)	4 961 193	4 501 613
Amortization of capital assets	6 618 430	6 676 224
Interest on long-term debt	<u>3 352 550</u>	<u>3 638 969</u>
	<u>69 467 436</u>	<u>67 199 594</u>
REVENUES		
Vehicle transport	8 657 007	8 244 295
Passenger transport	7 205 766	6 718 096
Other (Note 6)	<u>626 355</u>	<u>847 203</u>
	<u>16 489 128</u>	<u>15 809 594</u>
LOSS BEFORE GOVERNMENT CONTRIBUTIONS	52 978 308	51 390 000
GOVERNMENT CONTRIBUTIONS (Note 7)	<u>53 402 125</u>	<u>50 723 033</u>
NET (INCOME) LOSS AND COMPREHENSIVE INCOME	(423 817)	666 967
OPENING DEFICIT	<u>11 841 073</u>	<u>11 174 106</u>
CLOSING DEFICIT	<u>\$11 417 256</u>	<u>\$11 841 073</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
BALANCE SHEET
 as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash and cash equivalents		\$13 859 587
Accounts receivable (Note 8)	\$2 316 875	2 869 529
Prepaid expenses	367 650	518 922
Contribution to be recovered from the Government (Note 9)	<u>733 244</u>	<u>782 466</u>
	3 417 769	18 030 504
Investment of compensation from transfer of federal wharves (Note 12)	34 778 880	35 101 313
Contribution to be recovered from the Government (Note 9)	23 805 652	25 644 325
Capital assets (Note 10)	<u>70 940 587</u>	<u>73 288 167</u>
	<u>\$132 942 888</u>	<u>\$152 064 309</u>
LIABILITIES		
Current liabilities		
Bank overdraft	\$1 258 086	
Accounts payable and accrued liabilities	6 834 926	\$7 740 020
Ministère des Transports operating subsidy collected in advance		15 603 715
Long-term debt repayments (Note 11)	<u>6 202 873</u>	<u>5 527 819</u>
	14 295 885	28 871 554
Rent collected in advance	<u>120 000</u>	<u>126 000</u>
Long-term debt (Note 11)	<u>67 710 532</u>	<u>70 859 083</u>
Deferred government contribution		
For financial compensation from transfer of federal wharves (Note 12)	34 778 880	35 101 313
For capital assets (Note 13)	<u>25 781 053</u>	<u>27 273 638</u>
	142 686 350	162 231 588
SHAREHOLDER'S EQUITY (DEFICIT)		
Capital stock (Note 14)	1 500 000	1 500 000
Contributed surplus (Note 15)	173 794	173 794
Deficit	<u>(11 417 256)</u>	<u>(11 841 073)</u>
	(9 743 462)	(10 167 279)
	<u>\$132 942 888</u>	<u>\$152 064 309</u>
COMMITMENTS (Note 16)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
 Georges Farrah
 François Désy

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (net loss)	\$423 817	\$(666 967)
Adjustments for:		
Amortization of capital assets	6 618 430	6 676 224
Decrease in contribution to be recovered from the Government	1 887 895	1 216 759
Transfer of deferred Government contributions	(3 674 830)	(3 776 646)
Loss (gain) on sale of capital assets	31 038	(4 951)
Decrease in rent collected in advance	<u>(6 000)</u>	<u>(6 000)</u>
	5 280 350	3 438 419
Change in certain assets and short-term liabilities apart from cash and cash equivalents:		
Accounts receivable	552 654	(2 463 418)
Prepaid expenses	151 272	(54 694)
Accounts payable and accrued liabilities	(1 087 687)	1 236 502
Ministère des Transports operating subsidy collected in advance	<u>(15 603 715)</u>	<u>15 603 715</u>
Cash flows (for) from operating activities	<u>(10 707 126)</u>	<u>17 760 524</u>
INVESTMENT ACTIVITIES		
Acquisition of long-term investments	(1 835 023)	(1 966 338)
Proceeds from sale of investments	2 207 034	2 187 392
Acquisition of capital assets	(4 122 577)	(6 045 497)
Proceeds from sale of capital assets	<u>3 282</u>	<u>7 577</u>
Cash flows for investment activities	<u>(3 747 284)</u>	<u>(5 816 866)</u>
FINANCING ACTIVITIES		
Long-term borrowing	3 200 000	
Government contribution and related financial proceeds from transfer of federal wharves	1 810 234	1 965 418
Long-term debt repayment	<u>(5 673 497)</u>	<u>(5 146 117)</u>
Cash flows for financing activities	<u>(663 263)</u>	<u>(3 180 699)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(15 117 673)	8 762 959
OPENING CASH AND CASH EQUIVALENTS	<u>13 859 587</u>	<u>5 096 628</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$(1 258 086)</u></u>	<u><u>\$13 859 587</u></u>
Interest paid during the fiscal year	<u>\$3 401 773</u>	<u>\$3 728 428</u>

During the fiscal year, the Société acquired \$360 121 (2008: \$177 528) in capital assets, which are included in Accounts payable and accrued liabilities at March 31, 2009.

The notes are an integral part of these financial statements.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS March 31, 2009

1. CONSTITUTION AND PURPOSE

The Société des traversiers du Québec is a joint-stock company established under a special act (R.S.Q., chapter S-14) to provide ferryboat transportation services across rivers and lakes located in Québec. Its shares are part of the Québec public domain and are reserved for the Minister of Finance.

Under Section 5 of its incorporating legislation, the Société is an agent of the State and, consequently, does not pay Québec and Canadian income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main item subject to an estimate is the life-span of tangible fixed assets.

Revenue reporting

Service delivery

Revenues from service delivery are posted once the following conditions have been met:

- ✓ The service was paid for and rendered;
- ✓ The service was rendered and invoiced and recovery is reasonably certain.

Government participation

The Société uses the deferred method to record subsidies. The subsidy and related financial products subject to an allocation of external origin to charges for future fiscal years are posted to revenues in the fiscal years in which the corresponding charges are incurred. Unassigned subsidies are posted to revenues when received or receivable if the amount can be reasonably estimated and its reception is reasonably certain,

Capital assets

Capital assets acquired by donation are valued at historical cost, appraised value or municipal assessment. Other capital assets are recorded at acquisition cost, which includes interest accrued during construction and repair work.

Capital assets are amortized in accordance with the following methods and rates:

	Method	Rate
Buildings	Diminishing balance	4% and 10%
Wharves	Diminishing balance	5%
Vessels	Diminishing balance	15%
Fixtures and equipment	Diminishing balance	20%
Automotive equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	Term of lease

The Société regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows the asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimated future cash flows and determination of fair value requires the exercise of professional judgement and may vary over time.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Contribution to be recovered from the Government**

The contribution to be recovered from the Government corresponds to the difference between the interest expenses accrued on borrowings from the Financing Fund for capital asset acquisitions, plus the accumulated depreciation on those assets, and the subsidies received from the Gouvernement du Québec to make the payments on said borrowings.

Deferred Government contributions

Subsidies for capital asset acquisitions and the value assigned to assets acquired by donation are posted to deferred Government contributions and transferred to operations using the same methods and amortization rates as those used for the related capital assets.

Cash and cash equivalents

It is the Société's policy to present bank balances including bank overdrafts, whose balances often fluctuate between overdraft and available amounts, and short-term investments maturing within three months of the date they were acquired, under cash and cash equivalents

Financial instruments*Initial measurement*

Financial instruments are reported at their fair value the date of the transaction. Transaction costs are added to the initial fair value.

*Categories of financial instruments*Assets and liabilities held for transaction purposes

Assets and liabilities held for transaction purposes are assets and liabilities that the Société acquired primarily for resale in the short term in order to make a profit and belong to a portfolio of identified financial instruments managed together and presenting the indications of a recent short-term profit-making profile. This category also includes assets and liabilities not meeting the above-mentioned criteria but that the Société has chosen to designate irrevocably as held for transaction purposes.

Assets and liabilities held for transaction purposes are measured at their fair value and gains and losses resulting from their remeasurement at fair value are reported under net results.

The Société classified as held for transaction purposes, and irrevocably so designated, cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, since it considers fair value to represent the best picture of the financial position.

Assets held to maturity

Assets held to maturity are non-derivative financial assets, apart from loans and accounts receivable, whose payments are determined or can be determined with a fixed deadline and that the Société has the definite intention and ability to keep until they mature. These assets are subsequently measured at amortization cost using the effective interest rate method.

The Société classified the investment on the bond market of the compensation for federal wharves in this category. The interest income is included under deferred government contribution for financial compensation from transfer of federal wharves.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Categories of financial instruments (cont'd)

Other liabilities

Other liabilities include all non-derivative financial liabilities not classified in the category liabilities held for transaction purposes. These liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Société classified the long-term debt in this category.

Fair value

The fair value is the amount of the consideration that the parties having jurisdiction agree on acting freely and under fully competitive conditions. These values are determined using measurement methods like actualization of future cash flows at current interest rates and their stock market rates. Some measurements are made by the Société using commonly employed measurement methods.

Permanent decline in value of financial assets

For financial assets other than those held for transaction purposes, the Société evaluates whether there is an objective indication that these assets have depreciated. If so, the amount that can be recovered is calculated. If it is lower than the assets' book value, a loss for depreciation is reported in the statement of operations.

Comprehensive income

In the fiscal year ended on March 31, 2009, the Société carried out no transaction affecting comprehensive income and no opening or closing balance of cumulated comprehensive income has been presented.

3. CHANGE IN ACCOUNTING POLICIES

a) Adoption of new accounting standards

On April 1, 2008, in keeping with the transitory provisions applicable, the Société applied the recommendations in Chapter 1535, "Capital Disclosures," in the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). This new chapter, which came into force for fiscal years opening as of October 1, 2007, establishes standards governing the capital disclosures of the Société and the management of such disclosures. The new accounting standard covers only disclosure and does not have an impact on the financial results of the Société.

On April 1, 2008, the Société adopted Chapters 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation" in the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants. These new chapters came into force for fiscal years opening as of October 1, 2007 and replace the existing Chapter 3861, "Financial Instruments – Disclosure and Presentation." The standards governing disclosure stipulate that the additional information must be disclosed to round out the modification of accounting conventions adopted in 2007 pursuant to Chapter 3855, "Financial Instruments – Recognition and Measurement." The new requirements have had no impact on the financial results of the Société.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. OPERATING EXPENSES

	2009	2008
Salaries and fringe benefits	\$24 006 781	\$22 661 496
Staff training	368 076	165 190
Operating contracts	2 520 688	1 622 843
Fuel	10 457 529	8 971 452
Maintenance and repairs - Vessels	6 468 765	10 018 186
Maintenance and repairs - Wharves	4 060 521	3 085 052
Maintenance and repairs - Buildings	675 218	512 483
Property and school taxes	928 103	893 462
Insurance	1 233 896	1 224 641
Commission de la santé et sécurité au travail	398 410	507 937
Travel expenses	438 880	340 277
IT maintenance and telecommunications	157 504	153 919
Uniforms	294 001	406 155
Advertising	165 661	191 775
Professional fees	845 082	1 088 853
Port and wharf fees	480 239	444 766
Other	1 068 020	874 301
Amounts recovered from insurers	(32 111)	(780 000)
	<u>\$54 535 263</u>	<u>\$52 382 788</u>

5. ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and fringe benefits	\$3 397 346	\$3 234 998
Staff training	39 540	35 608
Travel expenses	268 415	258 388
Professional fees	473 804	334 169
Head Office building costs	239 206	187 645
Advertising	115 201	40 111
IT maintenance and telecommunications	158 975	119 404
Stationery and printing	79 830	80 900
Other	188 876	210 390
	<u>\$4 961 193</u>	<u>\$4 501 613</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
6. OTHER REVENUE

	2009	2008
Interest on bank deposits	\$232 206	\$417 545
Docking fees	42 356	44 130
Parking and miscellaneous	118 307	78 757
Vending machines and food concession	186 243	234 241
Advertising	52 667	27 428
Space rental	19 614	20 151
Vessel rental	6 000	20 000
(Loss) gain on sale of capital assets	(31 038)	4 951
	<u>\$626 355</u>	<u>\$847 203</u>

7. GOVERNMENT CONTRIBUTIONS

	2009	2008
Gouvernement du Québec subsidies		
Operating subsidy from the Ministère des Transports	\$51 615 190	\$48 163 146
Government contributions collectable	<u>(1 887 895)</u>	<u>(1 216 759)</u>
	<u>49 727 295</u>	<u>46 946 387</u>
Transfer of deferred Government contributions		
For financial compensation from the transfer of federal wharves (Note 12)	2 182 245	2 186 472
For capital assets (Note 13)	<u>1 492 585</u>	<u>1 590 174</u>
	<u>3 674 830</u>	<u>3 776 646</u>
	<u><u>\$53 402 125</u></u>	<u><u>\$50 723 033</u></u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. ACCOUNTS RECEIVABLE**

	2009	2008
Transportation sector	\$314 493	\$650 165
Government sector	272 423	5 282
Ministère des Transports subsidy receivable	1 526 290	1 352 000
Insurance claim	197 422	855 000
Other	6 247	7 082
	<u>\$2 316 875</u>	<u>\$2 869 529</u>

9. CONTRIBUTION TO BE RECOVERED FROM THE GOVERNMENT

The Gouvernement du Québec committed to paying the Société the sums required to cover its obligations regarding borrowings from the Financing Fund for capital asset acquisitions, after ensuring that the Société is unable to cover them itself.

The contribution to be recovered is:

	2009	2008
Opening balance	\$26 426 791	\$27 643 550
Amortization of capital assets financed on a long-term basis	3 834 825	4 018 816
Accrued interest on borrowings	<u>3 352 550</u>	<u>3 638 969</u>
	33 614 166	35 301 335
Government contributions received	<u>(9 075 270)</u>	<u>(8 874 544)</u>
Closing balance	<u>\$24 538 896</u>	<u>\$26 426 791</u>

This balance relates to the following balance sheet items:

	2009	2008
Borrowings from the Financing Fund (Note 11)	\$48 361 995	\$50 835 493
Unamortized cost of capital assets financed on a long-term basis (Note 10)	<u>(24 556 343)</u>	<u>(25 191 168)</u>
	23 805 652	25 644 325
Accrued interest on borrowings	<u>733 244</u>	<u>782 466</u>
	<u>\$24 538 896</u>	<u>\$26 426 791</u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. CAPITAL ASSETS**

	2009				2008	
	Financed on a long-term basis (Note 9)	Acquired from the Gouvernement du Québec	Acquired by donation (Note 13)	Other	Total	Total
Cost						
Land			\$173 794	\$21 972	\$195 766	\$195 766
Wharves *	\$932 712	\$23 108 643	40 401 297	1 132 393	65 575 045	65 164 522
Buildings	5 698 304	1 681 967	4 967 215	3 243 980	15 591 466	15 505 739
Vessels *	108 849 359		29 228 709	7 496 315	145 574 383	142 328 768
Fixtures and equipment *			12 738	3 286 126	3 298 864	2 982 846
Automotive equipment				149 171	149 171	146 521
Leasehold improvements			215 930	692 787	908 717	853 724
	<u>115 480 375</u>	<u>24 790 610</u>	<u>74 999 683</u>	<u>16 022 744</u>	<u>231 293 412</u>	<u>227 177 886</u>
Accumulated amortization						
Wharves	441 311	12 937 912	16 396 794	238 603	30 014 620	28 164 626
Buildings	1 183 228	1 370 299	3 675 571	1 202 615	7 431 713	6 701 164
Vessels	89 299 493		28 745 241	1 813 672	119 858 406	116 085 684
Fixtures and equipment			11 300	2 024 073	2 035 373	1 960 609
Automotive equipment				131 492	131 492	123 912
Leasehold improvements			215 930	665 291	881 221	853 724
	<u>90 924 032</u>	<u>14 308 211</u>	<u>49 044 836</u>	<u>6 075 746</u>	<u>160 352 825</u>	<u>153 889 719</u>
Net value	<u>\$24 556 343</u>	<u>\$10 482 399</u>	<u>\$25 954 847</u>	<u>\$9 946 998</u>	<u>\$70 940 587</u>	<u>\$73 288 167</u>

* At March 31, 2009, these items included a total of \$5 090 867 in acquisitions on which no amortization was recognized. This amount breaks down as: wharves: \$410 523; vessels: \$4 337 216 and fixtures and equipment: \$343 128.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**11. LONG-TERM DEBT**

	2009	2008
Owed to the Gouvernement du Québec, payable on request, interest-free and repayable according to the terms agreed upon by the Minister of Finance and the Société under an agreement regarding the Government's transfer of buildings and wharves to the Société	\$25 551 410	\$25 551 410
Borrowings from the Financing Fund, 8.49%, repayable in semi-annual instalments of \$1 766 415, maturing June 2011*	7 782 682	10 473 813
Borrowing from the Financing Fund, 6.96%, repayable in semi-annual instalments of \$1 725 967, maturing January 2018*	22 765 541	24 540 096
Borrowing from the Financing Fund, 5.06%, repayable in semi-annual instalments of \$280 938, maturing January 2018*	4 012 852	4 359 646
Borrowing from the Financing Fund, 5.68%, repayable in semi-annual instalments of \$288 635, maturing January 2018*	4 012 334	4 347 841
Borrowing from the Financing Fund, 6.04%, repayable in semi-annual instalments of \$102 319, maturing June 2028*	2 323 481	2 385 355
Borrowing from the Financing Fund, 5.00%, repayable in semi-annual instalments of \$181 137, maturing in 2016*	3 328 045	3 517 399
Borrowing from the Financing Fund, 4.72%, repayable in semi-annual instalments of \$91 860, maturing December 2015*	1 082 736	1 211 342
Borrowing from the Financing Fund, 4.65%, repayable in semi-annual instalments of \$200 726, maturing December 2018*	3 054 324	
	<u>73 913 405</u>	<u>76 386 902</u>
Instalments due within one year	<u>6 202 873</u>	<u>5 527 819</u>
	<u>\$67 710 532</u>	<u>\$70 859 083</u>

Payments of principal on loans for the next five fiscal years are:

2010	\$6 202 873
2011	6 657 267
2012	5 387 874
2013	3 930 753
2014	4 175 649

* These borrowings bear interest at fixed rates.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. DEFERRED GOVERNMENT CONTRIBUTIONS RELATED TO FINANCIAL COMPENSATION FROM THE TRANSFER OF FEDERAL WHARVES

Under an agreement signed on March 30, 2001, effective June 19, 2000, the Gouvernement du Québec transferred to the Société ownership of port facilities of an assigned value of \$35 525 305, located on the site of the ten ferry terminals received from the Government of Canada, and financial compensation of \$36 300 000 associated with this transfer. Under this agreement, the Société must use this lump sum, as well as the proceeds from its investment, exclusively for the operation, maintenance and repair of the ten terminals.

	2009	2008
Opening balance	\$35 101 313	\$35 320 527
Interest earned	426 181	1 057 393
Amortization of discount and premiums on investments	1 408 842	908 945
Safekeeping charges	(1 395)	(1 557)
Gain (loss) on sale of investments	26 184	2 477
	<u>36 961 125</u>	<u>37 287 785</u>
Transfer to operations of an amount equivalent to net maintenance and repair costs for federal wharves	<u>(2 182 245)</u>	<u>(2 186 472)</u>
	<u>\$34 778 880</u>	<u>\$35 101 313</u>

This balance relates to the following balance sheet items:

Investment of compensation for federal wharves comprising:

Cash	\$364 162	\$30 643
Compulsory market investment (market value: \$37 156 635; 2008: \$38 373 181)	34 323 774	34 886 589
Accrued interest receivable	90 944	184 081
	<u>\$34 778 880</u>	<u>\$35 101 313</u>

Compulsory investments bear interest at rates of 2.28% to 7.02%. The maturity dates extend from April 2009 to July 2025.

Discounts and bonuses are amortized in accordance with the internal rate of return method.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. DEFERRED GOVERNMENT CONTRIBUTIONS FOR CAPITAL ASSETS

	2009	2008
a) Gouvernement du Québec		
Opening balance	\$3 358 320	\$3 686 976
Transfer of following amounts to results:		
Amortization of capital assets subsidized or acquired by donation	<u>(294 411)</u>	<u>(328 656)</u>
Closing balance	<u>3 063 909</u>	<u>3 358 320</u>
b) Gouvernement du Canada		
Opening balance	23 915 318	25 176 836
Transfer to operations of amount equal to amortization of subsidized or donated capital assets	<u>(1 198 174)</u>	<u>(1 261 518)</u>
Closing balance	<u>22 717 144</u>	<u>23 915 318</u>
	<u><u>\$25 781 053</u></u>	<u><u>\$27 273 638</u></u>

This balance relates to the following items:

Land	\$173 794	\$173 794
Wharves	24 004 503	25 267 897
Buildings	1 291 644	1 435 159
Vessels	483 468	568 785
Fixtures and equipment	<u>1 438</u>	<u>1 797</u>
	25 954 847	27 447 432
Minus: Government share recorded as contributed surplus (Note 15)	<u>(173 794)</u>	<u>(173 794)</u>
	<u><u>\$25 781 053</u></u>	<u><u>\$27 273 638</u></u>

14. CAPITAL STOCK

	2009	2008
Authorized:		
100 000 shares with a par value of \$100 each		
Issued and paid up:		
15 000 shares	<u><u>\$1 500 000</u></u>	<u><u>\$1 500 000</u></u>

15. CONTRIBUTED SURPLUS

	2009	2008
Government share in property acquired by donation (Note 13)	<u><u>\$173 794</u></u>	<u><u>\$173 794</u></u>

SOCIÉTÉ DES TRAVERSIERS DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**16. COMMITMENTS**

The Société signed a long-term lease expiring in 2019 for offices at the Lévis station with a 14-year option to renew. Moreover, the Société signed a lease for the rental of premises in the Port de Québec renewed for five years. This lease includes two other options to renew for five years.

Under service agreements with three water carriers aimed at maintaining ferry services, the Société is committed to paying these carriers an annual amount to cover certain allowances or to make up their budgetary deficit.

Lease payments for the year ended March 31, 2009 totalled \$67 939. Remuneration paid to carriers totalled \$2 520 688.

At March 31, 2009, the Société's commitments for the next five fiscal years are:

	Leases	Service agreements *
2010	\$69 000	\$2 413 000
2011	71 000	2 438 000
2012	72 000	2 482 000
2013	74 000	2 535 000
2014	75 000	
	<u>\$361 000</u>	<u>\$9 868 000</u>

* Service agreement amounts are based on an estimate of the costs foreseen under contracts and carriers' budgetary deficits.

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. PENSION PLANS

Société staff participates in the Government and Public Employees Retirement Plan, Pension Plan of Management Personnel or Pension Plan for Senior Officials. These are inter-enterprise defined-benefit plans and include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$1 008 050 (2008: \$811 154). Its liability towards these Government plans is restricted to its employer contributions.

19. OBJECTIVES AND POLICIES RESPECTING FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**Objectives and policies respecting financial risk management**

The Société is exposed to various financial risks stemming both from its operations and its investment activities. The Société's management manages financial risks.

The Société does not conclude contracts covering financial instruments, including financial derivatives, for speculative purposes.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

**19. OBJECTIVES AND POLICIES RESPECTING FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS
AND FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)**

Financial risks

The main financial risk to which the Société is exposed and financial risk management policies are described below.

Interest rate risks

The long-term debt bears interest at fixed rates for most borrowings. Consequently, the interest rate risk related to the cash flows to which the Société is exposed is minimal as is the market risk linked to interest rates, given that the Société intends to repay it according to the schedule determined.

Liquidity risk

Liquidity risk management seeks to maintain a sufficient amount of cash and cash equivalents and to ensure that the Société has at its disposal sources of financing in the form of borrowings of a sufficient authorized amount. The Société establishes budget estimates and cash flow predictions to ensure that it has available the funds necessary to fulfil its obligations.

The maturity date of short-term financial liabilities falls within zero to six months and contractual cash flows related to the long-term debt are described in Note 11.

Credit risk

As a general rule, the book value on the balance sheet of the financial assets of the Société exposed to credit risk, after the deduction of the provisions applicable for losses, represents the maximum amount of credit risk to which the Société is exposed.

- Cash on hand

The Société is exposed to a concentration of credit risk from the standpoint of cash on hand, since it holds its funds in a financial institution.

- Account receivable

The credit risk linked to accounts receivable, subsidies receivable and other debtor accounts is usually limited because of the management of relations with customers and the account balances, which are analysed constantly.

- Investment on the bond market

The Société is exposed to a credit risk since it holds bonds on financial markets. Given the quality of the securities, management deems the risk of non-collection to be low.

Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of the financial instruments on the balance sheet:

Bond investments

Bonds' market fair value is measured using the stock market rate.

Long-term debt

At March 31, 2009, the fair value of the long-term debt of \$73 913 405 (2008: \$76 386 902) was \$80 976 636 (2008: \$83 204 478) given the discounting of cash flows at the market rate for certificates of indebtedness with similar maturity dates and interest rates (from 0.8% to 4% in 2009 and from 1.9% to 5% in 2008). However, in the fair value mentioned above, an amount of \$25 551 410, owing to the Gouvernement du Québec, was not assessed and was considered to equal book value, given the lack of a market for this type of long-term debt.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

19. OBJECTIVES AND POLICIES RESPECTING FINANCIAL RISK MANAGEMENT AND FINANCIAL RISKS AND FAIR VALUE OF FINANCIAL INSTRUMENTS (cont'd)

Short-term borrowing

At March 31, 2009, the Société was able to meet its short-term cash needs through short-term borrowings, credit lines with financial institutions or the Government's Financing Fund. These credit lines are authorized up to \$10 000 000 until June 30, 2012 by the Gouvernement du Québec. They bear interest at the lending institution's prime rate. Credit may be reviewed periodically by the lending institution. The next review is scheduled for August 31, 2009. At March 31, 2009, the balance of this borrowing was zero.

Other assets and liabilities

The fair value of current assets and liabilities equals their book value, given that they mature in the short term.

20. INFORMATION ON CAPITAL

The Société defines its capital as the shareholder's equity and the long-term debt, which can be broken down as follows:

	2009	2008
Shareholder's equity		
Capital stock	\$1 500 000	\$1 500 000
Contributed surplus	173 794	173 794
Deficit	<u>(11 417 256)</u>	<u>(11 841 073)</u>
	(9 743 462)	(10 167 279)
Long-term debt	<u>73 913 405</u>	<u>76 386 902</u>
Capital	<u><u>\$64 169 943</u></u>	<u><u>\$66 219 623</u></u>

The Société's shares are part of the Québec public domain and are attributed to the Minister of Finance.

Pursuant to its enabling legislation, the Société must obtain the authorization of the government to undertake certain borrowings and acquisitions. The Corporation is not subject to any other requirement in respect of capital by an external source.

During the fiscal year, the Société fulfilled all of the requirements respecting capital to which it is subject.

The Société manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

SOCIÉTÉ DES TRAVERSIERS DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société des traversiers du Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgments and estimates included therein, and for choosing appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual management report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. To this end, since April 2009, the audit committee has assisted it. The committee meets with management and the external auditors, examines the financial statements and recommends their approval by the Board of Directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Georges Farrah
President and Chief Executive Officer

Gaston Larocque
Director, Administration and Finance

Québec, May 21, 2009

SOCIÉTÉ DES TRAVERSISERS DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société des traversiers du Québec as at March 31, 2009 and the statements of operations, comprehensive income and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of changes to accounting policies related to financial instruments disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 21, 2009

SOCIÉTÉ D'HABITATION DU QUÉBEC
(R.S.Q., c. S-8)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	2009 (12 months)	2008 (15 months)
REVENUES		
Contributions (Note 4)		
Gouvernement du Québec	407 991	480 025
Canada Mortgage and Housing Corporation	261 177	333 752
	<u>669 168</u>	<u>813 777</u>
Fees (Note 5)	782	761
Interest and other revenues	<u>1 027</u>	<u>974</u>
	<u>670 977</u>	<u>815 512</u>
 EXPENSES		
Program costs (Note 4)	634 039	769 908
Administrative expenses (Note 6)	36 938	43 330
Permanent decline in value of investments (Note 9)	<u> </u>	<u>2 274</u>
	<u>670 977</u>	<u>815 512</u>

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	2009	2008
ASSETS		
Current assets		
Cash on hand	5 156	4 048
Accounts receivable (Note 7)	152 212	42 593
	<u>157 368</u>	<u>46 641</u>
Reserved funds (Note 8)	1 668	1 466
Investments (Note 9)	7 296	7 326
Contribution recoverable – Gouvernement du Québec (Note 15)	16 238	13 958
Capital assets (Note 10)	<u>7 711</u>	<u>7 991</u>
	<u>190 281</u>	<u>77 382</u>
LIABILITIES		
Current liabilities		
Short-term borrowing (Note 11)	7 785	7 962
Accounts payable (Note 12)	56 447	37 742
Provision for vacation time (Note 13)	2 828	2 364
Deferred contribution		
Gouvernement du Québec	12 311	7 673
Canada Mortgage and Housing Corporation (Note 14)	<u>89 400</u>	<u>2 033</u>
	168 771	57 774
Provision for losses on loan guarantees (Note 15)	16 238	13 958
Provision for sick leave (Note 13)	<u>5 272</u>	<u>5 650</u>
	<u>190 281</u>	<u>77 382</u>

COMMITMENTS AND CONTINGENCIES (Notes 18 and 19)

The notes are an integral part of the financial statements.

On behalf of the Board of Directors,
Ginette Fortin, Chairman of the Board of Directors
Robert Madore, President and Chief Executive Officer

SOCIÉTÉ D'HABITATION DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	2009 (12 months)	2008 (15 months)
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Cash receipts – Government contributions	748 274	803 683
Cash receipts – fees	708	700
Disbursements (cash receipts) – other	(82 406)	190
Disbursements – program costs	(629 573)	(787 106)
Disbursements – administrative expenses	(33 363)	(39 602)
Interest received	904	813
Interest paid	(232)	(450)
	4 312	(21 772)
Reserved funds (Note 8)	(202)	(1 049)
Amounts held for funding agencies (Note 16)		
Cash receipts – amounts received	2 224	1 576
Disbursements – amounts received	(2 070)	(1 558)
Interest received	8	13
	162	31
	4 272	(22 790)
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of capital assets	(3 017)	(3 633)
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Short-term borrowings		712
Repayment of short-term borrowings	(177)	
INCREASE (DECREASE) IN CASH	1 078	(25 711)
OPENING CASH ON HAND	4 048	39 359
LONG-TERM RECLASSIFICATION OF ASSET-BACKED COMMERCIAL PAPERS (Note 9)		(9 600)
ADJUSTMENT OF PREVIOUS FISCAL YEAR'S LONG-TERM RECLASSIFICATION OF ASSET-BACKED COMMERCIAL PAPERS (Note 9)	30	
CLOSING CASH ON HAND	5 156	4 048

The notes are an integral part of the financial statements.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société d'habitation du Québec (SHQ) is a legal person incorporated under a special act (R.S.Q., c. S-8) to:

- inform the Minister on the requirements, priorities and objectives of all housing sectors in Québec;
- stimulate development and cooperation in respect of public and private initiatives in the field of housing;
- make low-rental housing available to the citizens of Québec;
- promote the development and implementation of programs related to housing construction, acquisition, development, restoration and management;
- facilitate the acquisition of real property by the citizens of Québec;
- promote housing improvement.

The SHQ was mandated by Immobilière SHQ, a legal entity with partnership capital, agent of the State, incorporated under the *Act respecting Immobilière SHQ* (R.S.Q., c. I-0.3), to administer, in exchange for consideration, its property and the resulting obligations, and to see to the management of current business related to this property. In this regard, the SHQ conferred on the Société de gestion immobilière SHQ, a legal entity incorporated under Part III of the *Companies Act* (R.S.Q., c. C-38), the mandate to administer certain Immobilière SHQ buildings.

Following the passage of the *Act to amend the Act respecting the SHQ* (2007, c. 24) in fiscal 2007, the Société d'habitation du Québec's fiscal year ends on March 31 every year, rather than December 31. Exceptionally, for the fiscal year ended March 31, 2008, the fiscal year was a 15-month period.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main elements for which management has used estimates and assumptions are the provision for losses on loan guarantees, the provision for vacation time and the provision for sick leave.

Since April 1, 2008, to prepare its financial statements, the SHQ gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

a. Contributions

Contributions for program costs and the fiscal year's administrative costs are posted to revenue when the expenses related to these programs and administrative costs are posted.

The Canada Mortgage and Housing Corporation acts on behalf of the Government of Canada for programs contemplated by Canada-Québec framework agreements.

b. Program costs

Subsidies for program costs are posted to expenditures when the events related to them occur, provided they had been authorized and the beneficiaries met the eligibility criteria, where applicable.

c. Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**d. Pension plans**

The accounting procedure used for defined-contribution plans is applied to inter-enterprise Government defined-benefit plans, given that the SHQ lacks sufficient information to apply the accounting procedure for defined-benefit plans.

e. Investments

Investments are recognized at acquisition cost minus any permanent decline in value.

f. Capital assets

Capital assets are recorded at cost.

Computer development includes the cost of system design, execution, implementation and improvement.

Capital assets are amortized in accordance with the straight-line method over their estimated service life:

Leasehold improvements	5 years
Equipment	3 years
Computer development	5 years
Software	3 years

When market conditions show that a capital asset no longer contributes to the SHQ's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The capital assets' decline in value is posted to expenses in the statement of operations.

g. Provision for losses on loan guarantees

This provision is established by applying a rate based on past experience to the guaranteed loans.

3. CHANGE IN ACCOUNTING FRAMEWORK

Since April 1, 2008, to prepare its financial statements, the SHQ gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change did not affect the SHQ's results.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS

Program	2009 (12 months)			2008 (15 months)		
	Cost	CONTRIBUTIONS		Cost	CONTRIBUTIONS	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Affordable, community social housing assistance						
Non-profit housing (b)						
Public						
Regular component	241 235	103 065	138 170	300 567	125 831	174 736
Inuit component	68 294	34 172	34 122	82 108	38 514	43 594
	309 529	137 237	172 292	382 675	164 345	218 330
Private						
Housing cooperatives and non-profit organizations	28 735	7 202	21 533	30 001	7 575	22 426
Native housing – urban	7 573	1 910	5 663	8 195	2 070	6 125
Native housing – rural	6 269	1 578	4 691	7 273	1 830	5 443
	42 577	10 690	31 887	45 469	11 475	33 994
	352 106	147 927	204 179	428 144	175 820	252 324
Housing allowance for the elderly and families	75 962	75 962		101 822	101 822	
Rent supplement	53 364	34 134	19 230	67 424	43 178	24 246
AccèsLogis Québec for non-profit - cooperative housing	44 058	40 692	3 366	50 579	40 348	10 231
Logement abordable Québec						
Social and community component	19 423	19 422	1	27 515	18 180	9 335
Kativik region component	1 959	268	1 691	4 131	204	3 927
Private component	1 533	1 518	15	4 045	2 437	1 608
Nord du Québec region component	1 183	549	634	2 082	148	1 934
Emergency assistance in the context of the rental housing shortage						
2004 program	8 516	8 583	(67)	13 962	11 349	2 613
2005 program	2 381	2 381		4 046	3 160	886
Achat-Rénovation for non-profit, cooperative housing	2 238	2 238		2 665	2 665	
Assistance for community organizations	1 521	1 521		1 479	1 479	
Housing initiative in Nunavik	130	130		171	171	
Sub-total (amounts carried forward)	564 374	335 325	229 049	708 065	400 961	307 104

(a) Canada Mortgage and Housing Corporation.

(b) For the 15-month fiscal period ended March 31, 2009, the SHQ paid the Société de gestion immobilière SHQ a total of \$5.5 million (2008: \$4.4 million) for non-profit housing.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

Program	2009			2008		
	Cost	CONTRIBUTIONS		Cost	CONTRIBUTIONS	
		Gouvernement du Québec	CMHC (a)		Gouvernement du Québec	CMHC (a)
Amounts brought forward	564 374	335 325	229 049	708 065	400 961	307 104
Housing improvement						
RénoVillage	25 575	10 354	15 221	11 788	5 325	6 463
Home adaptations	17 895	15 730	2 165	17 421	13 337	4 084
Rénovation Québec	15 104	10 336	4 768	21 076	14 457	6 619
Assistance program for the revitalization of core areas	2 931	787	2 144	2 144	683	1 461
Emergency repairs	2 069	675	1 394	1 891	575	1 316
Home adaptations for greater autonomy of seniors	2 035	2 035		3 695	3 695	
Improvements to shelters	1 839	913	926	621	160	461
Assistance for owners of residential buildings damaged by pyrite oxidation	1 087	798	289	1 762	1 386	376
Home renovation for owners-occupants of the Kativik region				29	29	
Sub-total	68 535	41 628	26 907	60 427	39 647	20 780
Access to home ownership						
Access to home ownership for residents of the Kativik area	215	215		279	279	
Housing in isolated regions	37	37		42	85	(43)
Sub-total	252	252		321	364	(43)
Industrial support						
Support for the development of the Québec housing industry	484	484		1 082	1 082	
Various programs in the termination phase (c)	394	394		13	(7)	20
TOTAL	634 039	378 083	255 976	769 908	442 047	327 861
CONTRIBUTIONS						
Cost of program		378 083	255 956		442 047	327 861
Administrative expenses (Note 6)		29 908	5 221		35 704	5 891
Permanent decline in value on investments (Note 9)					2 274	
TOTAL		407 991	261 177		480 025	333 752

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

4. PROGRAM COSTS AND CONTRIBUTIONS (cont'd)

- (a) Canada Mortgage and Housing Corporation.
- (c) The different programs in the termination phase grouped under this item are: Assistance for the development of low cost dwellings, Emergency assistance in the context of the rental housing shortage (2002 and 2003 programs), Canada-Québec Residential Rehabilitation Assistance Program, Rental housing renovation, Virage Rénovation (home renovation stimulation), Réno, Home ownership assistance, Radon and Acquisition assistance in the community of Radisson.

5. FEES

	2009 (12 months)	2008 (15 months)
Immobilière SHQ	627	655
Société de gestion immobilière SHQ	70	77
Gouvernement du Québec		1
Miscellaneous organizations	85	28
	<u>782</u>	<u>761</u>

6. ADMINISTRATIVE EXPENSES

	2009 (12 months)	2008 (15 months)
Salaries and other remuneration (Note 17)	23 800	29 531
Transportation and communications	1 628	2 044
Professional services	4 422	4 628
Maintenance and repairs	546	438
Rent	2 333	2 562
Materials and supplies	289	466
Miscellaneous subsidies	338	167
Interest on short-term borrowings (Note 11)	231	439
Amortization of capital assets	3 297	3 000
Other	54	55
	<u>36 938</u>	<u>43 330</u>

**These administrative expenses are
offset, to a great extent, by the
following contributions:**

Gouvernement du Québec	29 908	35 704
Canada Mortgage and Housing Corporation	5 221	5 891
	<u>35 129</u>	<u>41 595</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

7. ACCOUNTS RECEIVABLE

	2009	2008
Contribution receivable		
Gouvernement du Québec	9 100	18 573
Canada Mortgage and Housing Corporation	29 446	9 355
Advances to housing boards for capitalizable major improvements	82 422	
Subsidy beneficiaries	23 233	8 352
Immobilière SHQ	173	159
Société de gestion immobilière SHQ	876	384
Advances to partners	6 593	5 619
Accrued interest	123	18
Other	246	133
	<u>152 212</u>	<u>42 593</u>

8. RESERVED FUNDS

Reserved funds comprise centralized replacement reserves for the Private non-profit housing program— cooperatives and non-profit organizations. They are used to carry out replacement, improvement and modernization work for housing cooperatives covered by this program. The consideration for the amounts held at fiscal year-end is included under “Accounts payable” in the Société’s liabilities.

9. INVESTMENTS**Third-part asset-backed commercial papers (ABCP)**

Since August 13, 2007, SHQ holds investments on the Canadian asset-backed commercial paper (ABCP) market not backed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee approved an agreement in principle to restructure the series linked to ABCPs issued by 20 trusts.

On April 25, 2008, ABCP note holders voted in favour of the restructuring plan (Plan), whose implementation was finalized on January 21, 2009.

In keeping with the Plan, the ABCPs in question were replaced by new, longer-term variable-rate notes designed to better correspond to the underlying assets’ maturity dates. The Plan also provides, in certain cases, for regrouping certain assets and creating new margin funding facilities to support any security calls that might occur.

The ABCP series in question, underwritten in full or part by synthetic assets, were regrouped into the following master asset vehicles (I and II):

- Master Asset Vehicle I (MAV I) is a newly-created vehicle for investors who have chosen to commit their prorated share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle II (MAV II) is a newly-created vehicle for investors who have chosen to commit less than their prorated share (or no share) of a margin funding facility, in which case the remaining portion will be funded by third parties.

The MAV I and MAV II margin funding facilities are supplied by several lenders. These facilities are designed to reduce the risk that the new vehicles might not be able to face margin calls should future circumstances make them necessary. Further, a moratorium prohibits margin calls for an 18-month period.

SOCIÉTÉ D'HABITATION DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

9. INVESTMENTS (cont'd)
Third-party asset-backed commercial papers (ABCP) (cont'd)

Regarding the contribution of assets underwritten by the MAV I and MAV II margin funding facility, investors received a combination of Class A-1, A-2, B and C notes maturing in December 2016. The Class A-1 and A-2 notes received a final credit rating of "A". Assets not eligible under MAV I and MAV II were separated and note holders holding ABCP series backed in part by ineligible assets received tracking notes for the ineligible assets, which reflect the return on the individual underlying assets.

A newly-created vehicle, siloing each series backed exclusively by traditional assets or 100% ineligible assets, was created under the name Master Asset Vehicle III (MAV III). Two main note classes were created under MAV III: traditional asset tracking notes and ineligible asset tracking notes. All notes are linked to net return and the maturity dates of their respective underlying assets.

Since there is no active market for the ABCP shares included in the Plan, management estimated the amount of ABCP it will later be able to recover on the face value. Management feels that the estimated fair values posted are reasonable and those that are the most appropriate at March 31, 2009 based on the information available at that time. The decline in value is estimated using an evaluation technique reflecting the credit quality of the underlying assets, certain assumptions and probabilities. It also take into account the notes' subordination sequence: Class C notes are subordinate to Class B notes, Class B notes are to Class A-2 notes and Class A-2 notes to Class A-1 notes. This cascade structure is designed to ensure that subordinate tranches absorb the initial losses so as to immunize the higher tranches. Due to the cascade structure, Class C and B notes absorb the largest declines in value. In December 2008, DBRS issued "A" rating to Class A-1 and A-2 notes but did not provide a rating for Class B and C notes.

Before restructuring, the SHQ held third-party ABCPs whose face value was \$9.6 million but whose book value was \$7.3 million.

At March 31, 2009, the SHQ considers that these investments had not declined in addition to the \$2.3 million permanent decline in value reported at March 31, 2008.

On January 21, 2009, the ABCPs held by the SHQ were replaced by the following:

	<u>Face value</u>
ABCPs included in the restructuring plan:	
MAV II	
Class A-1	5 448
Class A-2	2 523
Class B	458
Class C	260
Ineligible assets	<u>881</u>
	<u><u>9 570</u></u>

Class A-1, A-2 and B notes bear interest at bank acceptance rates minus 0.50%. Interest on Class B notes is cumulative and payable only once the capital and interest on Class A-1 and A-2 notes has been paid in full. Class C notes bear interest at bank acceptance rates plus 20%. This interest is cumulative and payable only once the capital and interest on Class A-1, A-2 and B notes has been paid in full. Ineligible asset notes bear interest at a rate that is adjusted based on the underlying assets' return.

Interest arrears

On January 21 and May 14, 2009, the SHQ received interest minus restructuring costs for the period running from the purchase date to January 21, 2009. Accrued interest, totalling \$0.1 million at March 31, 2009, was reported in this fiscal year.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

10. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Leasehold improvements	1 310	711	599
Equipment	7 093	5 752	1 341
Computer equipment	20 409	14 743	5 666
Software	1 001	896	105
	<u>29 813</u>	<u>22 102</u>	<u>7 711</u>
			<u>7 991</u>

11. SHORT-TERM BORROWING

The SHQ is authorized by the Gouvernement du Québec to take up short-term borrowings from financial institutions to a maximum of \$30 million up to March 31, 2010.

Any loan contracted under this authorization bears interest at the rate negotiated at the time of the borrowing, which generally corresponds to 1.5% less than the prime rate. The rate at March 31, 2009 was 0.76%.

Interest on the short-term borrowing for the fiscal year is posted to expenditures under "Administrative – Interest with short-term borrowing" (Note 6).

12. ACCOUNTS PAYABLE

	2009	2008
Subsidy beneficiaries	39 373	33 246
Immobilière SHQ	12 223	
Suppliers and other	4 251	3 965
Société de gestion immobilière SHQ	161	252
Sums held on behalf of granting agencies (Note 16)	401	239
Gouvernement du Québec	38	39
Accrued interest		1
	<u>56 447</u>	<u>37 742</u>

13. PROVISION FOR VACATION TIME AND SICK LEAVE**Provision for sick leave**

The SHQ has a sick leave accumulation program, which results in long-term obligations whose cost the SHQ assumes in full.

This sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure.

Sick leave accumulation program obligations increase as employees render services to the SHQ. The value of this obligation is established using a method that distributes programs cost over the duration of employees' service period.

SOCIÉTÉ D'HABITATION DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

13. PROVISION FOR VACATION TIME AND SICK LEAVE (cont'd)

During the fiscal year, the SHQ changed the method used to assess its obligations related to accumulated sick leave. Henceforth, these obligations will be assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation increased the value of the obligation by \$0.7 million at March 31, 2009. The effect of this change was posted to the fiscal year's results.

The following economic long-term assumptions were used to determine the obligations' actuarial value:

- Inflation rate	2.75%
- Wage growth minus inflation:	
RREGOP	0.50%
PPMP, PPSO	0.25%
- Discount rate:	
RREGOP	4.90%
PPMP, PPSO	4.08%
- Reduction factor	95%

	2009		2008	
	Vacation time	Sick leave	Vacation time	Sick leave
Opening balance	2 364	5 650	2 063	5 254
Provision for the year	2 108	205	2 147	953
Benefits paid or annulled during the year	(1 644)	(583)	(1 846)	(557)
Closing balance	<u>2 828</u>	<u>5 272</u>	<u>2 364</u>	<u>5 650</u>

14. DEFERRED CONTRIBUTION – CANADA MORTGAGE AND HOUSING CORPORATION

The deferred Canada Mortgage and Housing Corporation contribution is for new contributions for the fiscal years considered and covers the expenses of future fiscal years under the AccèsLogis Québec program for cooperative and non-profit housing, du programme Logement abordable Québec and unamortized capitalizable repairs to buildings under the Non-profit housing – Public program. Variations during the fiscal year in the balance of the deferred contribution are:

	2009	2008
Opening balance	2 033	13 102
Fiscal year's new contributions:		
AccèsLogis Québec for cooperative and non-profit housing and		
Logement abordable Québec	566	4 713
Non-profit housing - Public	89 133	
	91 732	17 815
Contributions posted to the fiscal year's revenue:		
AccèsLogis Québec for cooperative and non-profit housing and		
Logement abordable	(2 332)	(15 782)
Closing balance	<u>89 400</u>	<u>2 033</u>

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

15. PROVISION FOR LOSSES ON LOAN GUARANTEES

	2009	2008
Opening balance	13 958	12 025
Provision for the year	4 905	3 628
Fulfilment of guarantees	<u>(2 625)</u>	<u>(1 695)</u>
Closing balance	<u>16 238</u>	<u>13 958</u>

The provision breaks downs by program as follows:

AccèsLogis Québec for non-profit, cooperative housing	10 638	8 684
Logement abordable Québec – social and community component	3 843	3 280
Achat-Rénovation for non-profit, cooperative housing	1 112	1 112
Non-profit housing – Private	592	611
Assistance for community housing	<u>53</u>	<u>271</u>
	<u>16 238</u>	<u>13 958</u>

A recoverable Gouvernement du Québec contribution is recorded to cover this provision.

16. SUMS HELD ON BEHALF OF GRANTING AGENCIES

The amounts received from funding organizations under the AccèsLogis Québec and Achat-rénovation programs for cooperative and non-profit housing are redistributed to organizations working in the cooperative and non-profit field.

	2009	2008
Opening balance	239	209
Plus:		
Sums received	2 224	1 575
Interest income	<u>8</u>	<u>13</u>
	2 471	1 797
Minus:		
Amounts paid out	<u>2 070</u>	<u>1 558</u>
Closing balance	<u>401</u>	<u>239</u>

The amount held at year-end is posted to "Cash" and "Accounts receivable" under the heading "Assets" and to "Accounts payable" under the heading "Liabilities".

17. PENSION PLANS

SHQ staff participates in the Pension Plan of Management Personnel (PPMP) and Government and Public Employees Retirement Plan (RREGOP), which are inter-enterprise defined-benefit plans that include guaranteed payments on retirement or death.

The Société's contributions charged to the year-end statement and recorded as administrative expenses totalled \$1.3 million (2008: \$1.4 million). Its liability towards these Government plans is restricted to its employer contributions.

SOCIÉTÉ D'HABITATION DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

18. COMMITMENTS

Under the programs indicated below, the SHQ committed to repaying the principal and interest for any borrowing incurred by organizations, up to the subsidy promised the SHQ. Capital commitments by program break down as:

	2009	2008
AccèsLogis Québec for cooperative and non-profit housing (a)	362 878	300 468
Rénovation Québec	83 066	71 286
Logement abordable Québec		
Social and community component (a)	182 757	155 553
Private component	12 947	12 636
Renewal of old districts	11 731	12 924
Achat-rénovation for cooperative and non-profit housing (a)	7 308	9 027
	<u>660 687</u>	<u>561 894</u>

Assuming the refinancing occurs on maturity at the same conditions as those prevailing on March 31, 2009, the schedule of payments of principal over the coming fiscal years is:

2009-2010	45 430
2010-2011	47 514
2011-2012	49 397
2012-2013	50 718
2013-2014	51 577
2014 to 2019	266 503
2019 to 2024	<u>149 548</u>
	<u>660 687</u>

(a) The SHQ holds a mortgage guaranty on the immoveables targeted by these commitments in order to ensure that the organizations comply with the conditions assumed by the latter under the terms of the operating agreement between the SHQ and the organizations.

19. CONTINGENCIES

Secured loans (a)

The SHQ guarantees the repayment of loans granted by financial institutions to organizations benefitting from AccèsLogis Québec programs for non-profit, cooperative housing, Achat-rénovation for non-profit, cooperative housing and Logement abordable Québec – social and community component.

The repayment guarantees include secured loans, before the completion of the housing projects, in the form of credit lines and mortgage credit lines, to ensure the start-up loan and interim financing. The amount of these loans, minus the provision for losses on loan guarantees, totalled \$194 million at March 31, 2009 (March 31, 2008: \$138 million).

Once housing project construction has been completed, these loans will be divided in two to ensure long-term financing. One loan, corresponding to the amount of financial assistance granted by the SHQ as a subsidy promise for up to 15 years, will become a SHQ commitment (Note 18). The other, corresponding to the unsubsidized portion of the housing projects, will be guaranteed by the SHQ for a period of 25 or 35 years following acceptance of an extension by the SHQ. The loan amount, minus the provision for losses on loan guarantees, corresponding to the unsubsidized portion totalled \$643 million at March 31, 2009 (March 31, 2008: \$555 million).

The SHQ has recourses enabling it to recover the amounts paid after the guarantee comes into play. After the SHQ repays the guarantee to the financial institution, the latter subrogates the SHQ in all of its rights, titles and interests, including those of a first mortgage loan. The nature of the assets obtained through these recourses comprises immoveables subsidized under the above-mentioned programs.

SOCIÉTÉ D'HABITATION DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

19. CONTINGENCIES (cont'd)**Other guarantees (a)**

The SHQ entered into agreements with the Canada Mortgage and Housing Corporation in relation to the non-profit private housing program, the assistance for community housing program and the housing assistance program for isolated regions. Pursuant to these agreements, the SHQ has agreed to acquire the properties of which it has recovered possession following a default in payment by the borrower, for a purchase price equal to the value of the claim paid to the approved lender plus incidental expenses. The guarantees granted for programs covering 25 years apart from those related to loans granted in urban regions for Non-profit housing – Private programs, which run 35 years. The balance of the loans, minus the provision for losses on loan guarantees, which are subject to these agreements totalled approximately \$324 million at March 31, 2009 (March 31, 2008: \$339 million).

(a) The programs for which a provision for losses on loan guarantees is required are disclosed in Note 15.

Housing initiative in Nunavik program

Under this program, the SHQ made the commitment contribute amounts equal to those received by the Office municipal d'habitation Kativik in rental arrears prior to December 31, 1999 up to \$2.9 million. The balance of this commitment was \$1.2 million at March 31, 2009 (March 31, 2008: \$1.3 million).

Lawsuits

The balance of court proceedings in damages and interest instituted against the SHQ totals \$2.8 million. In the opinion of the SHQ, these lawsuits can result in no significant liability.

With regard to the balance of court proceedings in damages and interest instituted against Immobilière SHQ, any relative loss will be assumed by the housing offices and included in their operating deficit, which is subsidized by the SHQ. In the SHQ's opinion, no major liability can result from these proceedings.

20. RELATED PARTY TRANSACTIONS

During the fiscal year, the SHQ carried out transactions with Immobilière SHQ, a jointly controlled entity, and with the Société de gestion immobilière SHQ, a related party through members of the board. The amount of these transactions measured at exchange value and the resulting balances are presented separately in the SHQ's financial statements.

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the SHQ is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The SHQ did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

21. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ D'HABITATION DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société d'habitation du Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. The internal audit and investigations department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The Board of Directors must oversee the manner in which management performs its financial reporting duties, meet with management and the Auditor General, and review the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Robert Madore
President and Chief Executive Officer

André Filion
Vice-President, Business Strategies and Administration

Québec, September 2, 2009

SOCIÉTÉ D'HABITATION DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société d'habitation du Québec as at March 31, 2009 and the statements of operations and cash flows for the period of fifteen months then ended. These financial statements are the responsibility of Société management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, September 2, 2009

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC
(R.S.Q., c. S-14.001)

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Space rental for events	\$3 350 146	\$2 430 283
Royalties (Note 4)	3 564 413	2 549 912
Auxiliary operations (Note 5)	3 127 006	2 281 035
Interest income	218 594	270 703
Other	<u>356 592</u>	<u>305 487</u>
	<u>10 616 751</u>	<u>7 837 420</u>
EXPENSES		
Event hosting – expenses (Note 6)	2 701 317	1 975 925
Administrative and operating expenses (Note 7)	9 909 019	8 802 936
Taxes	4 137 223	4 035 621
Financial expenses (Note 8)	<u>2 481 257</u>	<u>2 724 399</u>
	<u>19 228 816</u>	<u>17 538 881</u>
DEFICIENCY OF REVENUES OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(8 612 065)	(9 701 461)
Gouvernement du Québec operating subsidy (Note 9)	<u>12 882 512</u>	<u>11 886 505</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEMS:	4 270 447	2 185 044
Gouvernement du Québec subsidy for capital assets (Note 9)	2 168 199	2 253 724
Amortization of capital assets	(3 503 136)	(3 329 483)
Amortization of intangible assets	(28 008)	(117 948)
Amortization of deferred contributions (Note 16)	<u>1 024 147</u>	<u>1 057 082</u>
EXCESS REVENUES OVER EXPENSES	<u><u>\$3 931 649</u></u>	<u><u>\$2 048 419</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBECSTATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$5 348 638	\$3 300 219
Excess revenues over expenses	<u>3 931 649</u>	<u>2 048 419</u>
CLOSING BALANCE	<u><u>\$9 280 287</u></u>	<u><u>\$5 348 638</u></u>
Cumulated surplus invested in capital assets	\$2 486 618	\$2 650 063
Cumulated surplus reserved for major maintenance	5 550 000	1 400 000
Cumulated surplus reserved for market development	247 586	300 000
Cumulated unappropriated surplus	<u>996 083</u>	<u>998 575</u>
	<u><u>\$9 280 287</u></u>	<u><u>\$5 348 638</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$1 120 385	\$3 462 818
Term deposits (Note 10)	4 900 000	2 300 000
Accounts receivable	686 268	1 053 496
Prepaid expenses	2 251 306	1 210 960
	<u>8 957 959</u>	<u>8 027 274</u>
Capital assets (Note 11)	91 580 838	94 908 622
Intangible assets (Note 12)		<u>28 008</u>
	<u>\$100 538 797</u>	<u>\$102 963 904</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 14)	\$2 308 686	\$5 113 221
Customer deposits	894 717	1 295 240
Deferred proceeds	67 096	65 876
Instalments on long-term debt (Note 17)	2 671 403	2 564 324
	<u>5 941 902</u>	<u>9 038 661</u>
Deferred Gouvernement du Québec subsidy (Note 15)	10 990 463	10 599 649
Deferred contributions (Note 16)	20 793 480	21 817 627
Long-term debt (Note 17)	52 000 415	54 627 079
	<u>89 726 260</u>	<u>96 083 016</u>
EQUITY		
Contributed surplus (Note 19)	1 532 250	1 532 250
Cumulated surplus invested in capital assets	2 486 618	2 650 063
Cumulated surplus reserved for major maintenance	5 550 000	1 400 000
Cumulated surplus reserved for market development	247 586	300 000
Cumulated unappropriated surplus	996 083	998 575
	<u>10 812 537</u>	<u>6 880 888</u>
	<u>\$100 538 797</u>	<u>\$102 963 904</u>

COMMITMENTS (Note 23)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
P.-Michel Bouchard, Chairman of Board of Directors and Director
Paule-Anne Morin, Director, Adm. A., CMC

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Cash receipts – clients	\$10 391 486	\$7 246 960
Cash receipts – Gouvernement du Québec subsidy	15 440 000	15 669 000
Disbursements – suppliers and staff members	(17 948 040)	(14 274 153)
Interest earned	193 189	259 240
Interest paid	(3 346 821)	(2 832 580)
Cash flows related to operating activities	<u>4 729 814</u>	<u>6 068 467</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(1 907 923)	(277 371)
Revenue from the sale of capital assets	<u>800</u>	<u>800</u>
Cash flows related to investment activities	<u>(1 907 923)</u>	<u>(276 571)</u>
FINANCING ACTIVITIES		
Long-term debt repayment	(2 564 324)	(3 674 314)
Cash flows related to financing activities	<u>(2 564 324)</u>	<u>(3 674 314)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	257 567	2 117 582
OPENING CASH AND CASH EQUIVALENTS	<u>5 762 818</u>	<u>3 645 236</u>
CLOSING CASH AND CASH EQUIVALENTS¹	<u><u>\$6 020 385</u></u>	<u><u>\$5 762 818</u></u>

1 Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$1 120 385	\$3 462 818
Term deposits	<u>4 900 000</u>	<u>2 300 000</u>
	<u><u>\$6 020 385</u></u>	<u><u>\$5 762 818</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Centre des congrès de Québec was established under a special act (R.S.Q., c. S-14.001) on July 1, 1993 to:

- manage and operate the Québec City Convention Centre;
- prepare development or operational plans for Convention Centre;
- carry on such commercial and other activities as may foster the development of the Convention Centre and take up their operation, promotion and management.

Under Section 3 of its incorporating legislation, the Société is an agent of the State and, consequently, does not pay Québec or Canadian income tax.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main item subject to an estimate is the life-span of capital assets.

Financial instruments

Initial measurement

Financial instruments are recognized at fair value the date of the transaction. Transaction costs are added to the initial fair value, with the exception of those related to financial instruments held for transaction purposes, which are posted to results.

Categories of financial instruments and subsequent measurement

Assets held for transaction purposes

Assets held for transaction purposes are assets that the Société acquired primarily for resale in the short term in order to make a profit and belong to a portfolio of identified financial instruments managed together and presenting the indications of a recent short-term profit-making profile. This category also includes assets not meeting the above-mentioned criteria but that the Société has chosen to designate irrevocably as held for transaction purposes, as well as derivatives.

Assets held for transaction purposes are measured at their fair value and gains and losses resulting from their remeasurement at fair value are reported under net results.

The Société classified as held for transaction purposes, and irrevocably so designated, cash, term deposits and accrued liabilities, since it considers fair value to represent the best picture of the financial position.

Other liabilities

Other liabilities include all non-derivative financial liabilities not classified in other categories. These liabilities are subsequently measured at amortized cost using the effective interest rate method.

The Société classified accounts payable and accrued liabilities, client deposits and the long-term debt in this category.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Fair value**

The fair value is the amount of the consideration that the parties having jurisdiction agree on acting freely and under fully competitive conditions. These values are determined using measurement methods like actualization of future cash flows at current interest rates and their stock market rates. Some measurements are made by the Société using commonly employed measurement methods.

Capital assets

The land and building, which were acquired for a nominal fee of \$1 on January 1, 1994, were recorded at their municipal assessment value at this date. Other capital assets are recorded at cost.

Capital assets are amortized using the straight-line method and their estimated service life as follows:

Buildings	40 years
Developments	10 years
Furniture and equipment	3 and 5 years

The Société regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows the asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimated future cash flows and determination of fair value requires the exercise of professional judgement and may vary over time.

Intangible assets

Intangible assets, comprising software, are recorded at cost and amortized in accordance with the straight-line method over the estimated service life, i.e. 5 years.

They undergo a depreciation test when events or changes in the situation indicate that it may not be possible to recover their book value.

Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Deferred Gouvernement du Québec subsidy

The Government committed to paying the Société the amount it needs to cover its obligations on its borrowings from the Financing Fund for the acquisition of capital assets and the issuing and management fees for these borrowings, after having ensured that the Société is unable to do so.

The deferred Gouvernement du Québec subsidy corresponds to the difference between the total interest charges on borrowings for the acquisition of capital assets and the cumulated amortization on these capital assets financed by these borrowings and total Gouvernement du Québec subsidies received to enable the payment of these borrowings.

Deferred contribution

The contributions received for the acquisition of amortizable capital assets and those received in the form of amortizable capital assets are reported and transferred to results using the same method and service life estimates as the capital assets they pertain to.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) as at March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Currency conversion

Assets and liabilities expressed in foreign currency are converted into Canadian dollars at the rate in effect the date of the financial statement. Revenues and expenses are converted at the exchange rate in effect the day of the transaction. Gains and losses on foreign exchange are charged to the fiscal year's operations.

Revenue reporting

Revenue from space rental and delivery of auxiliary services are posted as the services are rendered. Any difference in the amount received and the amount posted to revenue is indicated in the balance sheet under client deposits or accounts receivable. Royalties are posted as they are earned in keeping with contractual conditions.

Investment operations are posted on the settlement date and the resulting income is posted on an accrual basis. Interest income is posted according to the number of days the investment is held during the fiscal year.

Subsidy reporting

The Société uses the deferred method to report subsidies. Subsidies allocated are posted to revenue the fiscal year in which the related charges were incurred. Operating subsidies are posted to revenue the fiscal year in which they were granted. The subsidy for capital assets represents the government contribution to repayment of the long-term debt for financing amortizable capital assets, which corresponds to the amortization of these capital assets and the issuing and management fees for the deferred long-term debt.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is the Société's policy to present bank balances, short-term borrowings and short-term investments that are easily convertible in the short term to a known amount of cash, whose value is not expected to change significantly, under cash and cash equivalents.

3. CHANGE IN ACCOUNTING POLICIES

Adoption of new accounting standards

Disclosure in respect of capital and financial instruments – presentation and disclosure:

On April 1, 2008, the Société adopted three new accounting standards of the Canadian Institute of Chartered Accountants (CICA): Chapter 1535, "Capital Disclosures," Chapter 3862, "Financial Instruments – Disclosure," and Chapter 3863, "Financial Instruments – Presentation." The adoption of these new standards has not led to changes in the recording of the Société's operations but has resulted in the addition of notes to the financial statements.

Chapter 1535 establishes standards governing the entity's capital disclosures and the manner in which the capital is managed. These standards are intended to enable users of the financial statements to evaluate the capital management objectives, policies and procedures that the entity has adopted. The disclosures to be made by the Société are presented in Note 20, "Information on capital."

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2008

3. CHANGES IN ACCOUNTING POLICIES (cont'd)**Adoption of new accounting standards (cont'd)****Disclosure in respect of capital and financial instruments – presentation and disclosure: (cont'd)**

Chapters 3862 and 3863 replace chapter 3861, “Financial Instruments – Disclosure and Presentation.” Disclosure has been revised and broadened. The requirements pertaining to presentation have remained the same. These new chapters bolster the importance of providing information on the nature and scope of the risks inherent in financial instruments and the manner in which management manages such risks. The additional information is presented in Note 18, “Financial instruments and financial risk management.”

4. ROYALTIES

	2009	2008
Food services	\$2 568 829	\$2 084 547
Audiovisual services	928 639	436 583
Other	66 945	28 782
	<u>\$3 564 413</u>	<u>\$2 549 912</u>

5. AUXILIARY OPERATIONS

	2009	2008
Furnishings and furniture	\$1 397 550	\$1 002 227
Electricity, plumbing	656 908	580 268
Telecommunications	544 521	328 006
Audiovisual, sound and lighting	100 884	63 101
Information, box office and cloakroom	144 615	173 405
Security	104 080	40 026
Cleaning services	25 407	29 058
Other	153 041	64 944
	<u>\$3 127 006</u>	<u>\$2 281 035</u>

6. HOSTING OF EVENTS - EXPENSES

	2009	2008
Furnishings and furniture	\$1 426 247	\$1 067 944
Electricity, plumbing	259 679	192 189
Telecommunications	75 061	21 760
Audiovisual, sound and lighting	12 393	3 476
Information, box office and cloakroom	368 582	275 473
Security	200 471	130 895
Cleaning services	251 391	220 092
Other	107 493	64 096
	<u>\$2 701 317</u>	<u>\$1 975 925</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**7. OPERATING AND ADMINISTRATIVE EXPENSES**

	2009	2008
Salaries and fringe benefits	\$5 014 595	\$4 464 326
Insurance and permits	115 592	129 445
Power and heating	901 086	780 198
Caretaking	383 694	353 688
Cleaning services	338 841	233 980
Specialized maintenance services	870 090	784 602
Maintenance and repairs	942 695	956 520
Promotion and communication	851 849	745 262
Professional and administrative services	397 054	312 457
Professional development	73 229	56 275
Bad and doubtful debts (recovered)	20 294	(13 184)
Gain on transfers of capital assets		(633)
	<u>\$9 909 019</u>	<u>\$8 802 936</u>

8. FINANCIAL EXPENSES

	2009	2008
Interest on long-term debt	\$2 537 383	\$2 668 098
Exchange loss (Gain)	(76 865)	34 248
Other interest and bank expenses	20 739	22 053
	<u>\$2 481 257</u>	<u>\$2 724 399</u>

9. GOUVERNEMENT DU QUÉBEC SUBSIDY**Operating subsidy:**

	2009	2008
Subsidy received for the year	\$15 440 000	\$15 669 000
Receipt – Subsidy for debt service	(5 094 871)	(6 450 593)
	10 345 129	9 218 407
Contribution for payment of interest on long-term debt and related short-term borrowings contracted to finance capital assets	2 537 383	2 668 098
Total of the operating subsidy	12 882 512	11 886 505
Subsidy for capital assets and deferred expenses:	2 168 199	2 253 724
	<u>\$15 050 711</u>	<u>\$14 140 229</u>

10. TERM DEPOSITS

	2009	2008
Certificates of deposit		
3.03%, maturing in June 2009	\$800 000	
3.16%, maturing in July 2009	4 000 000	
2.91%, maturing in September 2009	100 000	
4.8%, matured in June 2008		\$2 300 000
	<u>\$4 900 000</u>	<u>\$2 300 000</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009**11. CAPITAL ASSETS**

	2009		2008
	Cost	Accumulated depreciation	Net
Land	\$5 618 150		\$5 618 150
Buildings	117 562 795	\$33 735 076	83 827 719
Developments	1 812 585	315 677	1 496 908
Furniture and equipment	2 114 672	1 476 611	638 061
	<u>\$127 108 202</u>	<u>\$35 527 364</u>	<u>\$91 580 838</u>
			<u>\$94 908 622</u>

12. INTANGIBLE ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Software	<u>\$595 902</u>	<u>\$595 902</u>	<u>\$28 008</u>

13. SHORT-TERM BORROWINGS

The Société is authorized, under a short-term borrowing plan, to contract short-term borrowings of up to \$4 000 000 until June 30, 2009. At March 31, 2008 and 2009, the Société had no short-term borrowings.

To ensure repayment of the capital and interest for borrowings from the Minister of Finance, under this borrowing scheme, the Gouvernement du Québec committed to paying the Société the amounts required to cover its obligations should it be unable to do so for one or more of its borrowings.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Current operations	\$2 230 586	\$3 083 758
Capital assets – jointly-controlled entity		1 681 705
Capital assets – other	69 192	120 058
GST/QST – capital assets	<u>8 908</u>	<u>227 700</u>
	<u>\$2 308 686</u>	<u>\$5 113 221</u>

15. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDY

The deferred subsidy breaks down as:

	2009	2008
Opening balance	\$10 599 649	\$9 070 878
Amortization of capital assets and intangible assets financed over the long term	(2 168 199)	(2 253 724)
Interest on borrowings	(2 537 383)	(2 668 098)
Adjustment of interest related to financial instruments	<u>1 525</u>	
	<u>5 895 592</u>	<u>4 149 056</u>
Government subsidies received	<u>5 094 871</u>	<u>6 450 593</u>
Closing balance	<u>\$10 990 463</u>	<u>\$10 599 649</u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2008**15. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDY (cont'd)**

This balance pertains to the following balance sheet items:

	2009	2008
Financing Fund borrowings (Note 17)	\$(54 671 818)	\$(57 191 403)
Unamortized cost of capital assets and intangible assets financed over the long term	66 779 227 12 107 409	68 946 970 11 755 567
Interest on borrowings and prepayment on loans	(1 116 946)	(1 155 918)
	<u>\$10 990 463</u>	<u>\$10 599 649</u>

16. DEFERRED CONTRIBUTIONS

	2009	2008
Deferred Gouvernement du Québec contribution:		
Opening balance	\$560 948	\$862 599
Disposals		(168)
Transfer to revenue of an amount equivalent to the amortization of related capital assets ¹	(268 548)	(301 483)
	<u>292 400</u>	<u>560 948</u>
Deferred City of Québec contribution:²		
Opening balance	2 075 429	2 156 028
Transfer to revenue of an amount equivalent to building amortization ¹	(80 599)	(80 599)
	<u>1 994 830</u>	<u>2 075 429</u>
Deferred Government of Canada contribution:		
Opening balance	19 181 250	19 856 250
Transfer to revenue of an amount equivalent to building amortization ¹	(675 000)	(675 000)
	<u>18 506 250</u>	<u>19 181 250</u>
	<u>\$20 793 480</u>	<u>\$21 817 627</u>

1 Amortization of deferred contributions for the year amounts to \$1 024 147 (March 31, 2008: \$1 057 082).

2 Represents the transfer by the Ville de Québec on January 1, 1994 of a building for the symbolic value of \$1 reported at the municipal assessment value at this date.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

17. LONG-TERM DEBT

With the Gouvernement du Québec Financing Fund

	2009	2008
Notes payable		
Effective rate of 4.427%/year (nominal rate 4.379%), repayable in semi-annual instalments of \$1 856 554, capital and interest, ending October 1, 2013 ¹	\$37 389 552	\$39 359 072
Effective rate of 5.457%/year (nominal rate 5.385%), repayable in semi-annual instalments of \$79 807 in capital, ending October 1, 2012 ¹	1 419 762	1 579 376
Effective rate of 4.582%/year (nominal rate 4.531%), repayable in semi-annual instalments of \$569 173, in capital and interest, ending December 1, 2016 ¹	15 862 504	16 252 955
	54 671 818	57 191 403
Instalments due within one year	(2 671 403)	(2 564 324)
	<u>\$52 000 415</u>	<u>\$54 627 079</u>

Repayment of the principal on the long-term debt over the next five fiscal years is:

2010	\$2 671 403
2011	2 783 251
2012	2 900 081
2013	3 820 181
2014	29 108 093

- 1 To ensure repayment of the principal and interest for borrowings contracted under the borrowing scheme set up by the Société, the Gouvernement du Québec committed to paying the Société the amounts required to cover its obligations should it be unable to do so for one or more of these borrowings.

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

In the normal course of its business, the Société is exposed to credit risk and to market risk stemming from exchange rate fluctuations and interest rate fluctuations.

Credit risk

The book value of financial assets represents the Société's maximum exposure to credit risk.

With regard to receivables, the Société believes that the concentration of credit risk is minimal because of its invoicing/encashment process, rigorous follow-up in respect of each client, and the clients' sound payment history.

It establishes the provision for doubtful accounts according to each client's specific risk. As at March 31, 2009, no account was overdue.

Market risk**a) Exchange risk**

The Société carries out certain transactions in foreign currency. It does not hold or issue financial instruments to manage the risks to which it is exposed. However, these risks do not significantly influence its results or financial position. At March 31, 2009, assets in US dollars represented \$345 400 US of cash (March 31, 2008: \$300 372 US).

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (cont'd)

Market risk (cont'd)

b) Interest rate risk

The Société's financial assets and liabilities bear interest at a fixed rate and, consequently, the interest rate fluctuation risks to which they are exposed are minimal. Further, the Société is not exposed to an interest rate risk on these financial liabilities given that interest payments are made from a specific Gouvernement du Québec subsidy.

Fair value

The following methods and assumptions were used to estimate the fair value of the financial instruments in the balance sheet.

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the short term.

The fair value of the elements of the long-term debt is determined using the actualized value of future cash flows under current financing agreements, at interest rates offered on the market to the Société for borrowings with similar conditions and terms. The fair value is:

	2009		2008	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	\$54 671 818	\$60 404 855	\$57 191 403	\$60 230 725

19. CONTRIBUTED SURPLUS

This represents the City of Québec's transfer of a building recorded at its municipal value on January 1, 1994, on that date and for the nominal fee of \$1.

20. INFORMATION ON CAPITAL

The Société defines its capital as its assets that include the contributed surplus and cumulated surpluses.

The Société is a mandatary of the State. Its property is part of the Québec public domain, but the execution of its obligations may be pursued in respect of such property. The Société commits only itself when it acts in its own name.

Pursuant to its enabling legislation, the Société may not without the government's authorization:

- 1) build, acquire, dispose of, lease or offer as a guarantee an immovable;
- 2) enter into a financial undertaking beyond the limits and terms and conditions determined by the government;
- 3) contract a loan that brings the total amounts that the Société has borrowed and not yet repaid beyond an amount determined by the government.

The Société is not subject to any other requirement in respect of capital by an external source.

During the fiscal year, the Société fulfilled all of the requirements respecting capital to which it is subject.

It manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

21. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all departments and special funds as well as to agencies and enterprises which are controlled directly or indirectly by the Gouvernement du Québec or are subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

22. FUTURE FRINGE BENEFITS**Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) or the Pension Plan of Management Personnel. These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement totalled \$238 224 (March 31, 2008: \$192 714). Its liability towards this Government plan is restricted to its employer contributions.

23. COMMITMENTS**Long-term contracts**

The Société is committed under long-term contracts terminating on various dates up to February 29, 2012 for regular and specialized maintenance services.

Minimum future payments under these commitments are:

2010	\$565 810
2011	138 890
2012	<u>93 669</u>
	<u><u>\$798 369</u></u>

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société du Centre des congrès de Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial position and the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, meet with management and the Auditor General, and review the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Michel Bureau
Director Administration

P.-Michel Bouchard
President and Chief Executive Officer

Québec, May 20, 2009

SOCIÉTÉ DU CENTRE DES CONGRÈS DE QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société du Centre des congrès de Québec as at March 31, 2009 and the statements of operations and comprehensive income, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 20, 2009

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
(R.S.Q., c. S-14.01)

STATEMENT OF OPERATIONS
for the year ended August 31, 2008

	2008				2007
	Operating Fund	Cultural Development Fund	Capital Assets Fund	Total	Total
REVENUES					
Gouvernement du Québec subsidies (Note 4)	\$3 452 118	\$50 000	\$2 390 834	\$5 892 952	\$5 192 143
Gain on dispute settlement (Note 5)					430 514
Performance production and presentation (Note 6)	1 215 274	52 094		1 267 368	1 601 169
Ticket office	2 142 861			2 142 861	1 777 326
Rent – auditoriums	835 854			835 854	806 338
Theatrical services	979 979			979 979	872 496
Customer service	96 242			96 242	112 518
Parking	116 634			116 634	104 294
Interest	135 201			135 201	120 829
Other	50 804			50 804	54 196
	<u>9 024 967</u>	<u>102 094</u>	<u>2 390 834</u>	<u>11 517 895</u>	<u>11 071 823</u>
EXPENSES					
Salaries and fringe benefits	3 709 180	31 342		3 740 522	3 476 330
Artistic expenses	729 217	251 338		980 555	863 786
Building maintenance and repairs	496 678		750 178	1 246 856	1 121 584
Ticket office sales costs	951 497			951 497	736 365
Publicity (Note 6)	384 134	49 822		433 956	618 354
Insurances, taxes municipal and school	1 242 671			1 242 671	931 077
Electricity	419 375			419 375	420 355
Caretaking	258 416			258 416	251 836
Equipment purchases, maintenance and repairs	199 122		50 552	249 674	223 187
Transportation and communications	104 136			104 136	123 484
Supplies	88 518			88 518	56 841
Professional fees	9 607			9 607	43 410
Equipment rental	31 108			31 108	19 457
Financial expenses	157		689 972	690 129	554 746
Amortization of capital assets			1 325 356	1 325 356	1 172 121
	<u>8 623 816</u>	<u>332 502</u>	<u>2 816 058</u>	<u>11 772 376</u>	<u>10 612 933</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES					
	<u>\$401 151</u>	<u>\$(230 408)</u>	<u>\$(425 224)</u>	<u>\$(254 481)</u>	<u>\$458 890</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC
(R.S.Q., c. S-14.01)

STATEMENT OF CHANGE IN FUND BALANCES
for the year ended August 31, 2008

	2008				2007
	Operating Fund	Cultural Develop- ment Fund	Capital Assets Fund	Total	Total
OPENING BALANCE	\$622 878	\$955 821		\$1 578 699	\$1 119 809
Change in accounting policy: creation of the Capital Assets Fund (Note 3)	(560 000)		\$560 000		
	62 878	955 821	560 000	1 578 699	1 119 809
Excess (deficiency) of revenues over expenses	401 151	(230 408)	(425 224)	(254 481)	458 890
CLOSING BALANCE	<u>\$464 029</u>	<u>\$725 413</u>	<u>\$134 776</u>	<u>\$1 324 218</u>	<u>\$1 578 699</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

BALANCE SHEET
as at August 31, 2008

	2008			2007
	Operating Fund	Cultural Develop- ment Fund	Capital Assets Fund	Total
				Total
ASSETS				
Current assets				
Cash on hand	\$2 120 258			\$2 120 258
Term deposits (Note 7)	1 353 981			1 353 981
Accounts payable	619 692			619 692
Interfund payables, interest-free, no repayment conditions		\$725 413	\$398 699	
Gouvernement du Québec subsidies receivable (Note 8)			1 675 001	1 675 001
Supplies, at cost	80 903			80 903
Prepaid expenses	458 860			458 860
	<u>4 633 694</u>	<u>725 413</u>	<u>2 073 700</u>	<u>6 308 695</u>
Cash reserved for asset maintenance			11 574	11 574
Gouvernement du Québec subsidies receivable (Note 8)			11 820 906	11 820 906
Capital assets (Note 9)			23 186 372	23 186 372
Deferred expenses				<u>46 622</u>
	<u>\$4 633 694</u>	<u>\$725 413</u>	<u>\$37 092 552</u>	<u>\$41 327 547</u>
				<u>\$40 956 113</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

BALANCE SHEET (cont'd)
as at August 31, 2008

	2008			2007
	Operating Fund	Cultural Develop- ment Fund	Capital Assets Fund	Total
				Total
LIABILITIES				
Current liabilities				
Bank loans (Note 10)			\$1 650 512	\$1 650 512
Deposits – ticket sales	\$1 508 670			1 508 670
Accounts payable and accrued liabilities	1 128 271		317 761	1 446 032
Interfund payables, interest-free, no repayment conditions	1 124 112			
Accrued interest			245 215	245 215
Gouvernement du Québec deferred subsidies (Note 11)	408 612			408 612
Instalments of the long-term debt (Note 12)			1 402 119	1 402 119
	4 169 665		3 615 607	6 661 160
Gouvernement du Québec deferred subsidies (Note 11)			18 578 841	18 578 841
Long-term debt (Note 12)			10 141 758	10 141 758
	4 169 665		32 336 206	35 381 759
EQUITY				
Gouvernement du Québec contribution (Note 13)			4 621 570	4 621 570
Fund balance	464 029	\$725 413	134 776	1 324 218
	464 029	725 413	4 756 346	5 945 788
	\$4 633 694	\$725 413	\$37 092 552	\$41 327 547

COMMITMENTS (Note 14)

On behalf of the Board of Directors,
Dominique Fortin
Alain Lemay

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended August 31, 2008

	2008				2007
	Operating Fund	Cultural Development Fund	Capital Assets Fund	Total	Total
OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$401 151	\$(230 408)	\$(425 224)	\$(254 481)	\$458 890
Adjustments for:					
Amortization of deferred subsidies	(54 842)	(50 000)	(1 700 862)	(1 805 704)	(1 808 568)
Amortization of capital assets			1 325 356	1 325 356	1 172 121
Amortization of deferred expenses					7 774
Gain on sale of capital assets					(6 185)
	<u>346 309</u>	<u>(280 408)</u>	<u>(800 730)</u>	<u>(734 829)</u>	<u>(175 968)</u>
Change in elements related to operations:					
Accounts receivable	400 663			400 663	(575 730)
Supplies	6 764			6 764	(9 829)
Prepaid expenses	(14 821)			(14 821)	(216 297)
Subsidies receivable			(259 794)	(259 794)	(2 704 774)
Deferred expenses			46 622	46 622	
Deposits – ticket sales	183 250			183 250	215 726
Accounts payable and accrued liabilities	155 645		149 842	305 487	32 215
Accrued interest			63 975	63 975	(20 375)
Deferred subsidies	408 612		1 124 915	1 533 527	3 706 840
Revenue collected in advance					(47 775)
Cash flows related to operating activities	<u>1 486 422</u>	<u>(280 408)</u>	<u>324 830</u>	<u>1 530 844</u>	<u>204 033</u>
FINANCING ACTIVITIES					
Bank loans			(1 998 006)	(1 998 006)	2 523 792
Long-term debt			4 767 000	4 767 000	
Repayment of long-term debt			(1 016 078)	(1 016 078)	(1 026 373)
Cash flows related to financing activities			<u>1 752 916</u>	<u>1 752 916</u>	<u>1 497 419</u>
Amounts carried forward	<u>\$1 486 422</u>	<u>\$(280 408)</u>	<u>\$2 077 746</u>	<u>\$3 283 760</u>	<u>\$1 701 452</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECSTATEMENT OF CASH FLOWS (cont'd)
for the year ended August 31, 2008

	2008			2007	
	Operating Fund	Cultural Develop- ment Fund	Capital Assets Fund	Total	Total
Amounts brought forward	\$1 486 422	\$(280 408)	\$2 077 746	\$3 283 760	\$1 701 452
INVESTMENT ACTIVITIES					
Cash reserved for asset maintenance			6 282	6 282	66 180
Acquisition of capital assets			(2 160 858)	(2 160 858)	(1 903 434)
Proceeds from sale of capital assets					6 185
Cash flows related to investment activities			(2 154 576)	(2 154 576)	(1 831 069)
CHANGE IN CASH AND CASH EQUIVALENTS	1 486 422	(280 408)	(76 830)	1 129 184	(129 617)
OPENING CASH AND CASH EQUIVALENTS	2 345 055			2 345 055	2 474 672
INTERFUND TRANSFER	(357 238)	280 408	76 830		
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u>\$3 474 239</u>	<u></u>	<u></u>	<u>\$3 474 239</u>	<u>\$2 345 055</u>

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2008

1. CONSTITUTION AND PURPOSE

A legal person under the Civil Code, the Société du Grand Théâtre de Québec was established under the *Act respecting the Société du Grand Théâtre de Québec* (R.S.Q., c. S-14.01) to operate a performing arts dissemination enterprise and administer the Grand Théâtre de Québec or any other establishment the Government mandates it to manage.

These activities are designed, in particular, to provide a home for major artistic organizations, encourage access to the different forms of performing arts, and promote Québec's artistic and cultural life.

Under Section 32 of its incorporating legislation, the Société funds its activities through its receipts and the appropriations granted annually for this purpose by the National Assembly. The Société keeps any surplus unless the Government decides otherwise.

Under Section 984 of the *Québec Taxation Act* and Section 149 of the *Canadian Income Tax Act*, the Société does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Fund accounting

The Operating Fund presents the Société's current operations.

The Cultural Development Fund is designed to support projects and activities contributing to cultural life and diversified artistic activities, providing information and developing new audiences and promoting public access to the creations of domestic and foreign artists. Apart from interest earned, it comprises transfers from the Operating Fund, gifts, sponsorships, other external contributions and proceeds from ticket sales for productions issuing from this Fund.

The Capital Assets Fund presents the assets, liabilities, income and expenditure pertaining to capital assets with the exception of construction work in progress. The portion of the balance of the Fund not invested in capital assets is reserved for the acquisition of capital assets, the maintenance of such assets and the payment of the relevant charges. Moreover, the Société may not, without first obtaining the government's authorization, dispose of, mortgage or lease an immovable.

Financial instruments

INITIAL MEASUREMENT

The financial instruments are initially recognized at fair value. The transaction costs related to the financial assets and liabilities held for transaction purposes are recorded as expenses at the time they are incurred. The transaction costs of other financial liabilities are added at initial fair value.

CLASSIFICATION AND SUBSEQUENT MEASUREMENT

Cash on hand, term deposits, accounts receivable and cash on hand reserved to maintain assets are classified in the category "Assets held for transaction purposes" and are measured at fair value.

Bank loans, accrued interest, note deposits-sales, and expenses due and accrued are classified in the category "Liabilities held for transaction purposes" and are measured at fair value.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**2. ACCOUNTING POLICIES (cont'd)****Financial instruments (cont'd)**

CLASSIFICATION SUBSEQUENT MEASUREMENT (cont'd)

Long-term debt is classified in the category "Other financial liabilities." It is measured at cost after amortization according to the effective interest rate method. Transaction costs are presented with the long-term debt and amortized according to the effective interest rate method over the anticipated useful life of the long-term debt concerned. The amortization is included in the financial expenses on the income statement.

FAIR VALUE

Fair value is the amount of the consideration on which the authorized parties acting freely under fully competitive conditions would agree. These values are determined by means of the basis of measurement such as discounting at the current interest rates for future cash flows and prices on the main stock markets.

COMPREHENSIVE INCOME

During the fiscal year ended August 31, 2008, the Société did not effect any transaction that affected comprehensive income and no opening or closing balance for cumulative comprehensive income is presented.

Recognition of income

SUBSIDIES

The subsidies affected are deferred and recognized as income during the fiscal year in which the related expenses are incurred. In this regard, subsidies receivable in respect of capital assets and their maintenance are entered in the fiscal year during which the Société carries out the work or has obtained financing that entitles it to such subsidies. Non-earmarked subsidies are recognized as income when they are received or receivable if the amount receivable may be subject to a reasonable estimate and its reception is reasonably assured.

OTHER INCOME

Income from service delivery and sales is recognized when the following conditions are met:

- there is convincing proof of the existence of an agreement;
- the delivery took place and the services were rendered;
- the selling price is determined or determinable;
- recovery is reasonably assured.

Capital assets

The property and building, acquired from the Gouvernement du Québec for a nominal amount, are posted at the municipal assessment value on the date of acquisition. Other acquisitions are recorded at cost, which includes materials, direct labour, professional fees and other direct expenses. Capital assets are amortized in accordance with the straight-line method over their estimated service life:

Building	40 years
Major extensions and repairs to building	15 years
Technical stage equipment	10 years
Office furniture and equipment	5 years
Data processing equipment	3 years

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd) August 31, 2008

2. ACCOUNTING POLICIES (cont'd)

Cash and cash equivalents

It is the Société's policy to present short-term investments that are very liquid and easily convertible into a known amount of cash, whose value is unlikely to change significantly, under cash and cash equivalents.

Pension plan

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGE IN ACCOUNTING POLICIES

Adoption of new accounting standards

On September 1, 2007, in accordance with the applicable transitional provisions, the Société applied the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning the recognition, measurement and presentation of financial instruments following the publication of Chapters 1530, "Comprehensive Income," 3855 Financial Instruments – Recognition and Measurement" and 3861, "Financial Instruments – Disclosure and Presentation." For the purposes of the application of Chapter 3855, the classifications adopted by the Société are disclosed in Note 2.

The Société has decided to classify long-term debt in the category "Other financial liabilities." In the same way, the Société has decided to present against the long-term debt the transaction costs that will be amortized according to the effective rate method. These choices have led to a reduction in the following items on the financial statements:

September 1, 2007

CAPITAL ASSETS FUND	
Deferred costs	\$46 622
Long-term debt	42 600
Gouvernement du Québec deferred subsidies	46 622
Gouvernement du Québec subsidies receivable	42 600

The derivatives embedded in other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contracts and recorded as derivatives when the economic characteristics and risks that they present are not closely linked to those that the host contract presents.

The Société chose September 1, 2002 as the transition date for embedded derivatives, as stipulated in the provisions of Chapter 3855 of the CICA handbook. Consequently, only contracts or financial instruments concluded or modified after the transition date have been reviewed in order to compile the embedded derivatives. This measure has not affected the Société's financial performance.

The Société has adopted Chapter 1506, "Accounting Changes," in the CICA handbook. This chapter establishes the criteria for changing accounting methods and accounting treatment and disclosure in respect of changes in accounting methods, changes in accounting estimates and the correction of errors, and requires the communication of the new leading sources of GAAP published but that have not yet come into force or that the Société has not yet adopted. These new standards have not affected the Société's financial performance.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

3. CHANGE IN ACCOUNTING POLICIES (cont'd)
Capital Assets Fund

Starting September 1, 2007, the Société opted for fund accounting for its operations related to capital assets. The operations grouped together in this Capital Assets Fund are those defined in Note 2. An amount of \$560 000 from the Operating Fund was earmarked for the Capital Assets Fund at the time of its creation. Data concerning the Operating Fund have been adjusted to reflect this change. Moreover, this new presentation does not affect the Société's income statement.

Future change in the accounting policies

In the next fiscal year, the Société will apply the new recommendations of the Canadian Institute of Chartered Accountants concerning the following new chapters: 3862, "Financial Instruments – Disclosure," 3863, "Financial Instruments – Presentation," 1535, "Capital Disclosures," and 3031, "Inventories."

Chapters 3862 and 3863 seek to inform users to enable them to evaluate the importance of financial instruments from the standpoint of the entity's financial position and financial performance and to measure the nature and scope of the risks stemming from the financial instruments to which the entity is exposed and the manner in which it manages such risks. These chapters, which replace Chapter 3861, "Financial Instruments – Disclosure and Presentation," modify and broaden the disclosure requirements but maintain as such the requirements concerning presentation. Since these chapters pertain specifically to disclosure, they will have no impact on the Société's financial performance.

In December 2006, the Canadian Institute of Chartered Accountants published Chapter 1535, "Capital Disclosures." This new chapter, which came into force for fiscal years opening as of October 1, 2007, establishes standards governing capital disclosures and the manner in which capital is managed. Since this chapter specifically covers disclosure, its implementation as of September 1, 2008, will have no impact on the Société's financial performance.

Chapter 3031, "Inventories," prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent accounting in expenses, including any depreciation up to the net realizable value. This chapter will have no impact on the Société's financial performance.

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES

	2008			2007
	Operating Fund	Cultural Develop- ment Fund	Capital Assets Fund	Total
Operating costs *	\$3 397 276			\$3 397 276
Interest on long-term debt			\$689 972	689 972
Amortization of deferred Gouvernement du Québec subsidies	54 842	\$50 000	1 700 862 **	1 805 704
	<u>\$3 452 118</u>	<u>\$50 000</u>	<u>\$2 390 834</u>	<u>\$5 892 952</u>
				<u>\$5 192 143</u>

* The operating subsidy reflects property taxes of \$967 690 (2007: \$657 430) assumed by the Société. The subsidy also reflects the Société's obligation to provide free lodging for the Conservatoire de musique de Québec, in keeping with the conditions linked to transferring ownership of the property and the building. The book value of this obligation is \$436 725 (2007: \$436 454) and entails the share attributable to the Conservatoire de musique de Québec for operating costs and property taxes.

** In addition to including an amount for the amortization of capital assets, this amount includes a sum used to finance current expenses for assets maintenance. The total breaks down as:

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

4. GOUVERNEMENT DU QUÉBEC SUBSIDIES (cont'd)

	2008	2007
Capital assets	\$1 325 356	\$1 172 121
Deferred expenses		7 774
Maintenance and repairs	364 606	478 925
Theatrical services	10 900	40 833
	<u>\$1 700 862</u>	<u>\$1 699 653</u>

5. GAIN ON DISPUTE SETTLEMENT

For the 2007 fiscal year, under a Tribunal administratif du Québec ruling, the property assessment of the building belonging to the Société was modified retroactively to the 2001 calendar year. The gain resulting from the settlement includes \$127 737 in interest income.

6. PERFORMANCE PRODUCTION AND PRESENTATION

The Société exchanges goods and services with certain suppliers. These non-monetary transactions are posted to the Société's year-end statement at the fair value of the goods and services exchanged, which increased the Société's revenue and expenditure for performance production and presentation for an amount of \$43 050 \$ (2007: \$184 515) and \$4 038 \$ (2007: \$0) for the Cultural Development Fund.

7. TERM DEPOSITS

Term deposits bear interest at a rate varying from 1.85% to 3.05% (2007: 2.55% to 4.37%).

8. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Short-term Gouvernement du Québec subsidies receivable correspond to the interest charged on the long-term debt, the interest paid and not reimbursed on the bank loans, and reimbursement of capital on the long-term debt in the next fiscal year.

Long-term subsidies receivable correspond to total Gouvernement du Québec commitments for capital assets and their maintenance minus reimbursement of principal on the long-term debt to be made in the next fiscal year. These subsidies are cashable in keeping with the instalments on the long-term debt related to them.

9. CAPITAL ASSETS

	2008			2007
	Cost or stated value	Accumulated depreciation	Net	Net
Land	\$4 621 570		\$4 621 570	\$4 621 570
Building	23 901 091	\$10 904 873	12 996 218	13 593 745
Major extensions and repairs to the building	8 190 738	4 058 233	4 132 505	4 136 082
Technical stage equipment	6 294 398	4 965 753	1 328 645	1 279 787
Office furniture and equipment	423 768	343 505	80 263	78 592
Data processing equipment	221 802	194 631	27 171	6 030
	\$43 653 367	\$20 466 995	\$23 186 372	\$23 715 806

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**10. BANK BORROWINGS****Operating Fund**

The Société has a credit line with a financial institution for its operations that is renewable annually on November 30. The amounts borrowed are authorized by the Gouvernement du Québec up to \$800 000 and bear interest at the prime rate. At August 31, 2008, the Société had not used this credit line.

Capital Assets Fund

The Gouvernement du Québec authorized the Société to borrow the following amounts for capital assets maintenance:

	<u>2008</u>	<u>2007</u>
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$816 700 bearing interest at the prime rate, maturing on November 30, 2008.	\$784 512	\$534 512
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$808 200 bearing interest at the prime rate, maturing on November 30, 2008.	711 000	120 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$1 000 000 (2007: \$4 000 000) bearing interest at the prime rate, maturing on November 30, 2008.	84 000	1 481 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$790 300 bearing interest at the prime rate, maturing on November 30, 2008.	71 000	
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$841 300 bearing interest at the prime rate, maturing on October 31, 2007.		798 000
Credit line repayable on demand, authorized by Order-in-Council, maximum of \$840 700 bearing interest at the prime rate, maturing on October 31, 2007.		<u>715 006</u>
	<u>\$1 650 512</u>	<u>\$3 648 518</u>

The maximum amount authorized by the Gouvernement du Québec for bank borrowings for assets maintenance is \$3 415 200 (2007: \$7 306 900).

As at August 31, 2008, the prime rate is 4.75% (2007: 6.25%).

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

11. GOUVERNEMENT DU QUÉBEC DEFERRED SUBSIDIES**Operating Fund**

Deferred subsidies are related to capital assets and their maintenance and property taxes and other expenses for future fiscal years.

Capital Assets Fund

Deferred subsidies concern capital assets and their maintenance.

	2008				2007
	Operating Fund	Cultural development Fund	Capital Assets Fund	Total	Total
Opening balance	\$19 259 630			\$19 259 630	\$17 361 358
Changes to accounting policies (Note 3):					
• Creation of the Capital Assets Fund	(19 154 788)		\$19 154 788		
• Financial instruments			(46 622)	(46 622)	
Restated opening balance	104 842		19 108 166	19 213 008	17 361 358
Inter-fund transfer	(50 000)	\$50 000			
	54 842	50 000	19 108 166	19 213 008	17 361 358
Subsidies received during the year	408 612		1 171 537	1 580 149	3 706 840
	463 454	50 000	20 279 703	20 793 157	21 068 198
Amortization of deferred subsidies	(54 842)	(50 000)	(1 700 862)	(1 805 704)	(1 808 568)
	408 612		18 578 841	18 987 453	19 259 630
Subsidies designed to cover expenses for the next fiscal year	(408 612)			(408 612)	(54 842)
			\$18 578 841	\$18 578 841	\$19 204 788

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**12. LONG-TERM DEBT**

Borrowings from the Financing Fund of the Gouvernement du Québec, guaranteed by the Gouvernement du Québec

	<u>Rate in effect</u>	<u>2008</u>	<u>2007</u>
Fixed rate of 6.0364%, repayable in annual instalments of principal of \$182 369 until December 1, 2009 and by an instalment of \$1 276 580 on December 1, 2010	6.17%	\$1 636 054	\$1 823 686
Fixed rate of 4.311%, repayable in annual instalments of principal of \$42 293 until October 1, 2008	4.49%	42 257	84 586
Fixed rate of 5.343%, repayable in annual instalments of principal of \$211 837 until October 1, 2013	5.50%	1 265 639	1 482 858
Fixed rate of 4.106%, repayable in annual instalments of principal of \$217 892 until May 10, 2010	4.31%	434 488	653 676
Fixed rate of 4.90%, repayable in annual instalments of principal of \$110 726 until July 16, 2020	5.03%	1 319 838	1 439 435
Fixed rate of 4.622%, repayable in annual instalments of principal of \$174 933 until March 31, 2016	4.77%	1 391 171	1 574 396
Fixed rate of 4.692%, repayable in annual instalments of principal of \$86 324 until March 31, 2016	4.84%	686 520	776 918
Fixed rate of 4.207%, repayable in annual instalments of principal of \$206 700 until October 1, 2012 and by an instalment of \$2 067 002 on October 1, 2013	4.33%	3 085 562	
Fixed rate of 4.207%, repayable in annual instalments of principal of \$84 553 until October 1, 2012 and by an instalment of \$422 763 on October 1, 2013	4.34%	841 474	
Fixed rate of 4.207%, repayable in annual instalments of principal of \$84 492 until October 1, 2012 and by an instalment of \$422 465 on October 1, 2013	4.34%	840 874	
		<u>11 543 877</u>	<u>7 835 555</u>
Instalment due within one year		<u>1 402 119</u>	<u>1 026 373</u>
		<u><u>\$10 141 758</u></u>	<u><u>\$6 809 182</u></u>

Repayment of principal on the long-term debt over the next five fiscal years is:

2009	\$1 402 119
2010	1 359 826
2011	2 236 145
2012	959 565
2013	959 565

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008

13. GOUVERNEMENT DU QUÉBEC CONTRIBUTION

The amount of the surplus contribution corresponds to the property's municipal assessment and the acquisition date.

14. COMMITMENTS

The Société has commitments to service suppliers for building cleaning and maintenance and equipment repairs. The minimum future payments regarding these commitments break down as:

2009	\$600 977
2010	363 186
2011	<u>284 980</u>
	<u>\$1 249 143</u>

15. CASH FLOWS**Operating funds**

The cash and cash equivalents shown in the cash flow statement include the following amounts recorded in the balance sheet:

	<u>2008</u>	<u>2007</u>
Cash on hand	\$2 120 258	\$990 255
Term deposit	<u>1 353 981</u>	<u>1 354 800</u>
	<u>\$3 474 239</u>	<u>\$2 345 055</u>

Capital Assets Fund

Interest on the long-term debt paid by the Société during the fiscal year totalled \$615 701 (2007: \$566 052).

Capital asset acquisitions for the fiscal year totalled \$795 922 (2007: \$3 248 125), with capital assets of \$31 999 (2007: \$1 396 935) included in accounts payable and accrued expenses as at August 31, 2008. Outpayments totalling \$2 160 858 (2007: \$1 903 434) were made for the purchase of capital assets.

16. FUTURE FRINGE BENEFITS**Pension plans**

The Société contributes to three pension plans in which certain staff members participate. Two of them are defined-contribution pension plans and include guaranteed payments on retirement, loss of employment and death and the other is the inter-enterprise defined-benefit plan Pension Plan of Management Personnel (PPMP), which includes guarantees on retirement and death.

As at January 1, 2008, the Société's PPMP contribution rate increased from 7.78% to 10.54%. The Société's contributions charged to the year-end statement totalled \$180 546 (2007: \$172 820). Its liability towards these plans is restricted to its employer contributions.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2008**16. FUTURE FRINGE BENEFITS (cont'd)****Provision for sick leave and vacation time**

	2008		2007
	Sick leave	Vacation time	Total
Opening balance	\$27 538	\$137 430	\$164 968
Expenses	50 667	308 845	359 512
Benefits paid	(50 609)	(276 342)	(326 951)
Closing balance	<u>\$27 596</u>	<u>\$169 933</u>	<u>\$197 529</u>
			<u>\$164 968</u>

This provision is included in the item "Accounts payable and accrued expenses."

17. FINANCIAL INSTRUMENTS**Current assets and liabilities**

The fair value of short-term financial instruments is equivalent to their cost given their short maturity date.

Long-term debt

As at August 31, 2008, the fair value of the long-term debt stands at \$12 130 993 (\$8 078 956 in 2007), bearing in mind discounted cash flow at market prices for agreements of a similar nature as regards terms and conditions and maturity dates.

Credit risk

The Société's exposure to credit risk corresponds to the book value of financial assets. The Société is carrying out an ongoing measurement of these assets and is accounting for a provision for losses when the accounts are deemed to be irrecoverable.

Interest-rate risks

The long-term debt is issued at fixed interest rates, thus reducing to a minimum cash-flow and interest-rate risks. The Société is exposed, above all, to risks stemming from interest rate fluctuations on its short-term variable-rate borrowings.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or are subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

19. COMPARATIVE FIGURES

Certain figures for 2007 have been reclassified to bring them into line with the presentation adopted in 2008.

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Société du Grand Théâtre de Québec were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. This committee meets with management and the auditor, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Ann Mundy
President and Chief Executive Officer

Jean-François Fusey, CA
Director of Administration

Québec, December 5, 2008

SOCIÉTÉ DU GRAND THÉÂTRE DE QUÉBEC**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société du Grand Théâtre de Québec as at August 31, 2008 and the statements of operations, change in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at August 31, 2008 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, with the exception of the changes made to the standards governing financial instruments, as explained in Note 3, in my opinion these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA
Auditor General of Québec

Québec, December 5, 2008

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
(R.S.Q., c. S-14.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	2009	2008
REVENUES		
Rental of premises	\$6 798 460	\$6 605 108
Royalties (Note 5)	4 181 333	3 527 233
Ancillary operations (Note 6)	6 140 022	5 989 300
Free rental (Note 7)	659 198	615 882
Other (Note 8)	819 015	766 837
	<u>18 598 028</u>	<u>17 504 360</u>
EXPENSES		
Hosting of events (Note 9)	4 597 750	4 696 005
Operating and administrative expenses (Note 10)	18 354 382	17 322 401
Municipal and school taxes (Note 11)	(3 695 103)	6 079 970
Loss on free rental (Note 7)	659 198	615 882
Net financial expenses (Note 12)	14 034 532	14 453 144
	<u>33 950 759</u>	<u>43 167 402</u>
EXCESS REVENUES OVER EXPENSES BEFORE OPERATING SUBSIDY AND OTHER ITEMS:	(15 352 731)	(25 663 042)
Gouvernement du Québec subsidy (Note 13)	<u>25 617 408</u>	<u>31 907 827</u>
EXCESS REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEMS:	10 264 677	6 244 785
Unrealized decline in value on investment (Note 15)	(1 297 617)	(1 369 300)
Gain (Loss) on sale of capital assets	(20 821)	7 084
Gouvernement du Québec subsidy for capital assets and deferred expenses (Note 13)	9 955 659	9 998 105
Amortization of capital assets	(11 007 738)	(11 027 661)
Amortization of deferred contributions	658 853	658 852
Revenue related to an account receivable on the sale of an asset	<u>151 170</u>	<u>151 170</u>
EXCESS REVENUES OVER EXPENSES	<u><u>\$8 553 013</u></u>	<u><u>\$4 663 035</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPENING BALANCE	\$26 099 949	\$21 436 914
Excess revenues over expenses	<u>8 553 013</u>	<u>4 663 035</u>
CLOSING BALANCE	<u><u>\$34 652 962</u></u>	<u><u>\$26 099 949</u></u>
Cumulated surplus invested in capital assets	\$7 993 865	\$7 024 211
Unappropriated cumulated surplus	<u>26 659 097</u>	<u>19 075 738</u>
	<u><u>\$34 652 962</u></u>	<u><u>\$26 099 949</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$671 075	\$893 166
Short-term investments (Note 14)	25 655 176	17 978 681
Accounts receivable	1 490 254	1 230 672
Prepaid expenses	3 513 652	1 090 423
Gouvernement du Québec subsidy to be recovered (Note 17)	13 521 787	13 227 847
	<u>44 851 944</u>	<u>34 420 789</u>
Capital assets (Note 16)	272 804 354	282 242 301
Rents receivable	351 164	301 231
Deferred expenses, at amortized cost	589 835	579 106
Long-term investment (Note 15)	1 625 500	3 141 500
Gouvernement du Québec subsidy to be recovered (Note 17)	28 235 852	27 356 125
	<u><u>\$348 458 649</u></u>	<u><u>\$348 041 052</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$12 193 172	\$11 631 175
Customer deposits	2 715 523	2 340 235
Instalments on long-term debt (Note 19)	9 075 932	8 649 500
	<u>23 984 627</u>	<u>22 620 910</u>
Deferred contributions (Note 18)	9 211 078	9 869 931
Long-term debt (Note 19)	280 609 982	289 450 262
	<u>313 805 687</u>	<u>321 941 103</u>
CUMULATED SURPLUS	<u>34 652 962</u>	<u>26 099 949</u>
	<u><u>\$348 458 649</u></u>	<u><u>\$348 041 052</u></u>
COMMITMENTS (Note 23)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Suzanne Landry
Claude Liboiron

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Receipts – clients	\$17 986 582	\$18 165 980
Receipts – Gouvernement du Québec subsidy	34 399 400	39 064 400
Disbursements – suppliers and staff members	(20 074 135)	(29 519 146)
Interest earned	837 890	714 860
Interest paid	<u>(14 550 877)</u>	<u>(14 324 358)</u>
Cash flows related to operating activities	<u>18 598 860</u>	<u>14 101 736</u>
INVESTMENT ACTIVITIES (1)		
Acquisition of capital assets	(2 494 955)	(1 334 884)
Long-term investment		(3 141 500)
Revenue from the sale of capital assets		<u>5 857 132</u>
Cash flows related to investment activities	<u>(2 494 955)</u>	<u>1 380 748</u>
FINANCING ACTIVITIES		
Long-term debt repayment	<u>(8 649 501)</u>	<u>(7 937 849)</u>
Cash flows related to financing activities	<u>(8 649 501)</u>	<u>(7 937 849)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7 454 404	7 544 635
OPENING CASH AND CASH EQUIVALENTS	<u>18 871 847</u>	<u>11 327 212</u>
CLOSING CASH AND CASH EQUIVALENTS (2)	<u><u>\$26 326 251</u></u>	<u><u>\$18 871 847</u></u>

(1) At March 31, 2009, “Accounts payable and accrued liabilities” included balances payable capital asset acquisitions totalling \$2 694 612 (at March 31, 2008: \$3 824 799).

(2) Cash and cash equivalents include the following amounts reported in the balance sheet:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$671 075	\$893 166
Short-term investments	<u>25 655 176</u>	<u>17 978 681</u>
Cash and cash equivalents	<u><u>\$26 326 251</u></u>	<u><u>\$18 871 847</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du Palais des congrès de Montréal was established without capital stock under a special act (R.S.Q., c. S-14.1) to:

- manage and operate the Palais des congrès de Montréal;
- prepare development or operational plans for the Palais des congrès;
- carry on, promote and administer such commercial and other activities as may foster the development of the Palais des congrès.

Under section 3 of the Act establishing it, the Société is not subject to income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

The main items subject to estimates are the life-span of capital assets and the evaluation of long-term investments.

Financial assets and liabilities

When initially recognized, all financial assets and liabilities are measured and recognized at their fair value, with the exception of the financial assets and liabilities resulting from certain related party transactions. The transaction costs for financial assets and liabilities held for transaction purposes are recognized in the statement of operations and presented under financial costs. The transaction costs for financial assets available for sale, investments held until maturity and loans and accounts receivable increase the book value of the related financial assets. Financial asset purchases or disposal within a standardized delivery period are recognized on the transaction date.

Then, the financial assets and liabilities are measured and recognized as described below.

Financial assets and liabilities held for transaction purposes

Financial assets and liabilities held for transaction purposes are measured at their fair value and the resulting changes are recognized in the statement of operations. These changes in fair value recognized in the statement of operations include interest income, exchange gains or losses and realized and unrealized gains or losses and are presented under net financial expenses.

The Société classified cash and asset-backed commercial papers in this category.

When initially measured, asset-backed commercial papers were designated by the Société as held for transaction purposes because the Société deems that the financial information generated by this classification is more relevant for decision-making and allows the Société's performance to be measured better.

Investments held until maturity, loans and accounts receivable and other financial liabilities

Investments held until maturity, loans and accounts receivable and other financial liabilities are measured at cost after amortization using the effective interest method (including any depreciation in the case of financial liabilities) or at the contractual rate, if applicable. Interest calculated using the effective interest rate method is presented in the statement of operations under net financial expenses, if applicable.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Investments held until maturity, loans and accounts receivable and other financial liabilities (cont'd)**

The Société classified the following financial instruments in this category:

Investments held until maturity:	– Short-term investments
Loans and accounts receivable:	– Accounts receivable – Rents receivable
Other liabilities:	– Accounts payables and accrued liabilities – Long-term debt

Gouvernement du Québec subsidy recoverable

The Gouvernement du Québec committed to paying the Société the amounts it needs to cover its obligations on borrowings from the Financing Fund for capital asset acquisitions and borrowing issuing and management, after having ensured that the Société is unable to do so.

The Gouvernement du Québec subsidy recoverable corresponds to the difference between the total interest charges on borrowings for the acquisition of fixed assets and the cumulated amortization on these capital assets and on the deferred expenses and issuing and management fees financed by these borrowings and total Gouvernement du Québec subsidies received to enable the payment of these borrowings.

Capital assets

Capital assets are recorded at cost and amortized over their estimated useful life in accordance with the straight-line method as follows:

Building	40 years
Layout	10 years
Furniture and equipment	10 years
Data processing equipment	5 years
Computer software	5 years

The Commission regularly examines its capital assets' book value, comparing it to the undiscounted future cash flows an asset is expected to generate. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined. Estimating future cash flows and determining fair value requires exercising professional judgement and may vary over time.

Deferred expenses

Direct initial expenses incurred to lease office space on the ground floor are deferred and amortized in accordance with the straight-line method over the duration of the lease.

Deferred contributions

Contributions received for the acquisition of amortizable capital assets and those received in the form of amortizable capital assets are reported and transferred to results using the same method and service life estimates as the capital assets they pertain to.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd) March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Conversion into foreign currency

Monetary assets and liabilities in foreign currency are converted at the exchange rate in effect the date the financial statements were drawn up. Revenues and expenses are converted at the exchange rate in effect the date of the transaction. Exchange gains or losses are included in the fiscal year's results.

Revenue reporting

Revenue is reported when earned, notably when:

- the services are rendered;
- there is clear evidence that an agreement exists;
- the amounts have been, or can be, established;
- the capacity for recovery is reasonably assured.

Revenue from space rental and the delivery of auxiliary services are reported as the services are rendered. Any difference between the amount received and the amount reported as revenue is indicated in the balance sheet under client or debtor deposits. Royalties are reported as they are earned in keeping with contractual conditions.

Subsidy reporting

The Société uses the deferred method to report subsidies. Subsidies allocated are reported as revenue for the fiscal year in which the related charges were incurred. Operating subsidies are reported as revenue for the fiscal year in which they were granted. The subsidy for capital assets, issuing and management expenses financed represents the government contribution to repayment of the long-term debt for financing amortizable capital assets and the related deferred expenses, which corresponds to the amortization of these capital assets and the issuing and management fees for the deferred long-term debt.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that can easily be converted in the short term into a known amount whose value is unlikely to change significantly and whose initial maturity date when acquired is 3 months or less under cash and cash equivalents.

3. NEW ACCOUNTING STANDARDS

a) Adoption of new accounting standards

Capital Disclosures – Chapter 1535

Financial Instruments – Disclosure – Chapter 3862

Financial Instruments – Presentation – Chapter 3863

On April 1, 2008, the Société adopted the following chapters in the CICA *Public Sector Accounting Handbook*: 1535, "Capital Disclosures," 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation." Chapter 1535 establishes standards governing the disclosure of information on the Société's capital and the manner in which it is managed. These norms are intended to enable users of the financial statements to evaluate the Société's capital management objectives, policies and procedures. Note 4 provides information on the Société's capital.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. NEW ACCOUNTING STANDARDS (cont'd)**a) Adoption of new accounting standards (cont'd)**

Chapters 3862 and 3863 of the CICA handbook replace Chapter 3861, "Financial Instruments – Disclosure and Presentation," and amend and enhance disclosure requirements while maintaining the rules governing presentation. Moreover, these chapters attach greater importance to disclosures on the nature and scope of risks stemming from financial instruments and the manner in which the Société manages such risks. Note 20 provides information on the Société's financial instruments.

b) Future change in accounting policies*Future accounting standards*

In February 2008, the Canadian Institute of Chartered Accounts (CICA) released Section 3064, "Goodwill and Intangible Assets" to replace Section 3062, "Goodwill and Intangibles". Release of this new section resulted in the withdrawal of Section 3450, "Research and Development" and related changes to certain CICA Handbook recommendations. The new section defines standards for recognition, measurement and disclosure of information applying to THE goodwill and intangible assets of for-profit entities. This new section applies to fiscal years opening on or after October 1, 2008 and the Société will apply it as of April 1, 2009. The Société is evaluating the impact on its financial statements of the application of this standard.

At the same time, the Accounting Standards Board (ACB) confirmed that the GAAP for Canada, as applied by enterprises that have a public obligation to render account, will be replaced, starting in fiscal years opening as of January 1, 2011, by the International Financial Reporting Standards (IFRS). The Société must present its annual financial statements for the fiscal year ending March 31, 2012 according to the IFRS. It will be required to restate comparative data concerning the fiscal year ending March 31, 2011 according to the IFRS and, consequently, its transition date will be April 1, 2010. The Société has initiated its convergence plan in respect of the IFRS, which seeks, first and foremost, to ascertain the differences between the IFRS and the current accounting conventions that it applies and to assess the impact of the permissible accounting options. The consequences on the presentation of the Société's financial information cannot be reasonably pinpointed at the present time.

4. CAPITAL MANAGEMENT

The Société is a corporation controlled by the Gouvernement du Québec and incorporated without share capital, as indicated in Note 1. The Société's mission is to generate significant economic and intellectual spinoff for Québec and enhance Montréal's international profile. It receives a financial contribution from the government to fund its operations, acquire capital assets and repay its debt and the attendant interest. The Société manages its capital, which corresponds to the revenues generated by its operation and the subsidies received, prudently and efficiently in order to satisfy its objectives and the regulations and legislation governing it.

5. ROYALTIES

	2009	2008
Ticket sales	\$365 570	\$482 592
Food services	2 850 228	2 334 816
Audiovisual services	894 792	585 111
Other	70 743	124 714
	<u>\$4 181 333</u>	<u>\$3 527 233</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**6. ANCILLARY OPERATIONS**

	2009	2008
Parking	\$1 030 040	\$1 063 750
Layout	1 227 417	1 154 358
Cleaning services	492 328	508 310
Audiovisual services	765 277	719 577
Telecommunications	628 926	588 191
Reception and cloakroom	195 762	188 489
Plumbing and electricity	1 515 510	1 408 815
Security	206 707	270 588
Other	78 055	87 222
	<u>\$6 140 022</u>	<u>\$5 989 300</u>

7. FREE RENTAL

The Société rents spaces free of charge to two entities in exchange for the partial expropriation of certain assets that they own, in order to do expansion work on Palais des congrès. These transactions are recorded at their fair value.

8. OTHER REVENUE

	2009	2008
Office rental	\$819 015	\$716 054
Administrative office subletting		50 783
	<u>\$819 015</u>	<u>\$766 837</u>

9. HOSTING OF EVENTS – EXPENSES

	2009	2008
Salaries – event staff:		
Customer service	\$542 118	\$609 841
Parking	108 170	115 338
Reception and cloakroom	612 527	610 849
Audiovisual technicians	440 597	462 149
Telecommunications	121 742	118 305
Layout	1 333 915	1 310 856
Maintenance	552 368	508 713
Audiovisual services	69 679	76 890
Telecommunications	91 284	100 789
Plumbing and electricity	326 118	295 234
Security	179 897	224 226
Other expenses	219 335	262 815
	<u>\$4 597 750</u>	<u>\$4 696 005</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. OPERATING AND ADMINISTRATIVE EXPENSES**

	2009	2008
Salaries and fringe benefits	\$7 922 691	\$7 632 051
Insurance and permits	275 099	280 059
Electricity and heating	1 805 948	1 683 061
Caretaking	740 467	775 232
Cleaning services	692 916	701 147
Specialized maintenance services	821 248	848 615
Maintenance and repairs	3 260 613	3 185 045
Amortization of deferred initial rental costs	81 771	82 343
Rent	19 670	113 901
Promotion and communications	1 657 337	1 315 661
Professional and administrative services	968 896	618 937
Doubtful and uncollectible accounts	12 010	(10 463)
Job training	95 716	96 812
	<u>\$18 354 382</u>	<u>\$17 322 401</u>

11. MUNICIPAL AND SCHOOL TAXES

	2009	2008
Municipal and school taxes	\$6 601 607	\$6 079 970
Tax refunds	<u>(10 296 710)</u>	
	<u>\$(3 695 103)</u>	<u>\$6 079 970</u>

Tax refunds

In accordance with a decision adopted in May 2001 and through a legislative amendment, the government set the Société's contribution in municipal taxes to the value prior to the expansion project, i.e. the amount of taxes paid in 2001 adjusted annually.

In early 2003, the Ville de Montréal modified the Société's 2002 and 2003 tax accounts to take into account the new legislative provisions. However, the Ville de Montréal withdrew from the calculation of the basic amount of the water and services tax a value of \$1.2 million in 2001, and continued to levy this tax separately.

Toward the end of 2003, the Ville de Montréal submitted to the real estate assessment roll a new property value for the Société's building, retroactive to July 15, 2002, the agreed upon date of completion of the work. The property value of the Société's building thus increased from \$94 million to \$254 million. At the same time, the rental value of the Société's building used to calculate the water and services tax increased from \$13.9 million to \$35.9 million. The Ville de Montréal retroactively invoiced the Société for an additional \$2.8 million in water and services tax for 2002 and 2003.

In light of the situation, the Société disputed before the Tribunal administratif du Québec (TAQ) the property value and the rental value of its building and the Ville de Montréal's interpretation of amended s. 231.5 of the Act respecting municipal taxation in order to recover the amounts overbilled and ensure that the Ville de Montréal properly applies the legislative provisions in the Act respecting municipal taxation.

In July 2008, the parties reached settlement in principle of the matter. On October 2, 2008, the settlement was submitted to the TAQ to obtain the court's decisions, which were handed down on December 4, 2008, in keeping with the overall settlement between the parties.

In accordance with the out-of-court settlement and the TAQ's decisions, the Société received in February 2009 a principal repayment of \$7 468 999 plus \$2 827 711 in interest, for a total of \$10 296 710.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

11. MUNICIPAL AND SCHOOL TAXES (continued)**Tax refunds (continued)**

For the taxation period from January 1 to December 31, 2009, the assessed value of the Société's building was \$300 000 000 and the attendant municipal taxes stood at \$12 860 646.

12. NET FINANCIAL EXPENSES

	2009	2008
Interest on long-term debt	\$14 600 111	\$15 144 626
Other interest and bank charges	53 928	23 378
	<u>14 654 039</u>	<u>15 168 004</u>
Interest on bank balances and term deposits	<u>(619 507)</u>	<u>(714 860)</u>
	<u>\$14 034 532</u>	<u>\$14 453 144</u>

13. GOUVERNEMENT DU QUÉBEC SUBSIDY

	2009	2008
Operating subsidy:		
Subsidy cashed in the fiscal year	\$34 399 400	\$39 064 400
Encashment – Subsidy recoverable from the Gouvernement du Québec for the previous fiscal year	<u>(13 227 847)</u>	<u>(11 734 919)</u>
	21 171 553	27 329 481
Contribution to be recovered for the payment of interest on the debt contracted to finance capital assets	<u>4 445 855</u>	<u>4 578 346</u>
Total operating subsidy	25 617 408	31 907 827
Subsidy for capital assets, issuing and management fees financed in the long term	<u>9 955 659</u>	<u>9 998 105</u>
	<u>\$35 573 067</u>	<u>\$41 905 932</u>

14. SHORT-TERM INVESTMENTS

	2009	2008
Bank acceptances, at average rate of 0.54%, maturing between April 1 and April 30, 2009	\$25 655 176	
Deposit certificates, at rate of 3.5%, maturing at April 1, 2008		\$8 700 000
Bank acceptances, at rate of 3.5%, maturing at April 24, 2008		<u>9 278 681</u>
	<u>\$25 655 176</u>	<u>\$17 978 681</u>

15. LONG-TERM INVESTMENT – ASSET-BACKED COMMERCIAL PAPERS

In August 2007, a liquidity crisis shook the asset-backed commercial paper (ABCP) market. Consequently, since August 13, 2007, the Société has been unable to obtain the reimbursement of amounts due to it upon the maturity of the ABCP sponsored by third parties that it holds.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**15. LONG-TERM INVESTMENT – ASSET-BACKED COMMERCIAL PAPERS (cont'd)**

On August 15, 2007, a group of investors proposed the Montreal Accord to investors who possessed ABCP sponsored by third parties, which sought to restore a climate of trust and pinpoint an effective resolution strategy. Under this agreement, investors committed themselves not to put the conduits into default (22 all told) to avoid the forced sale of the underlying financial assets (“status quo agreement”).

On September 6, 2007, a Pan-Canadian committee (“the Committee”) was formed to supervise the restructuring process to convert commercial papers into variable-rate notes whose maturity date corresponds to the underlying assets.

On January 21, 2009, the Committee announced that the restructuring plan respecting ABCP sponsored by third parties had been implemented. Under the plan’s provisions, the owners of ABCP sponsored by third parties exchanged their short-term notes for longer-term notes. The restructuring plan i) extended the maturity date of the ABCP sponsored by third parties to bring it into line with the maturity date of the underlying assets; ii) regrouped certain series of ABCP sponsored by third parties wholly or partially backed by underlying synthetic assets; and iii) mitigated the obligations stemming from margin calls on the existing conduits that are exposed to a risk of margin calls and created a structure designed to handle margin calls, as the case may be.

On the date of the plan’s implementation, the Société conducted a new evaluation of the fair value of its investments in ABCP prior to the substitution.

In the absence of an active market for ABCP, the Société determined the fair value of its investments in the ABCP immediately prior to the exchange by updating future cash flows that were determined using an evaluation model that takes into account management’s best estimates based as much as possible on available information on the credit risk attributable to the underlying assets, the relevant market interest rates, and the amount and the anticipated time of payment of capital and interest. The Société also took into account the estimate of its share of restructuring costs and interest income collected and anticipated.

For the purposes of the estimate of future cash flows for notes in master asset vehicle II (MAVII), the Société estimated that the long-term financial instruments would procure interest yields of 0.56%. These future cash flows have been capitalized for periods of eight years and at capitalization rates ranging from 8.16% to 26.33% that take into account liquidity. The Société has also taken into account its estimated share of the restructuring costs stemming from the agreement and the cash amounts accumulated in the conduits and payable at the time of the plan’s implementation.

In the case of notes for ineligible assets, management has based its evaluation on the reports issued by JP Morgan and BlackRock and has devalued its assets by 95%, on average.

Following the evaluation, on January 21, 2009, the Société recognized an increase in its provision for the devaluation of its investments in ABCP of \$1 297 617, recorded as an unrealized loss in value on an investment. The situation immediately prior to the exchange is indicated in the table below:

		2009		2008.	
	Face value	Cumulative adjustments in value	Fair value	Adjustments in value	Fair value
Synthetic and hybrid assets	\$2 812 500	\$1 280 400	\$1 532 100	\$346 000	\$2 466 500
High-risk assets	1 687 500	1 594 100	93 400	1 012 500	675 000
Restructuring costs				10 800	
	\$4 500 000	\$2 874 500	\$1 625 500	\$1 369 300	\$3 141 500

On January 21, 2009, the ABCP that the Société held on that date were replaced by new securities. The Société received MAVII notes and notes for ineligible assets (the Notes) with a face value of \$4 483 796, which can be broken down as follows:

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

15. LONG-TERM INVESTMENT – ASSET-BACKED COMMERCIAL PAPERS (cont'd)

Restructured notes	Face value	Yield	Maturity date
MAV II, Class A-1	\$185 801	Bankers' acceptances rate less 50 basis points	July 15, 2056
MAV II, Class A-2	2 143 739	Bankers' acceptances rate less 50 basis points	July 15, 2056
MAV II, Class B	389 148	Bankers' acceptances rate less 50 basis points	July 15, 2056
MAV II, Class C	84 083	20%	July 15, 2056
Notes for ineligible assets, Class 1	933 903	Unavailable	December 25, 2036
Notes for ineligible assets, Class 2	747 122	Unavailable	December 15, 2024
	<u>\$4 483 796</u>		

On March 31, 2009, the Société re-evaluated the fair value of its Notes. At the time of this evaluation, the Société reviewed its assumptions in order to consider new information available on that date and the changes that had occurred in credit market conditions. Following this new evaluation, no adjustment was recorded.

The estimate of the fair value of the Notes that the Société undertook is surrounded by considerable uncertainty. While management deems its evaluation technique to be appropriate under the circumstances, changes in the key assumptions could significantly affect the value of the Notes during the next fiscal year. The resolution of this uncertainty might mean that the final value of these investments diverges considerably from management's current best estimates and the scope of this discrepancy might then affect the Société's financial results. Accordingly, a change of 100 basis points in the capitalization factors used would affect the adjustment of fair value by about \$100 000.

The liquidity crisis that has hit the Canadian market for ABCP issued by third parties has not affected the operation of the Société. The Société possesses or has access to the funds necessary to fulfil all of its financial, operational or regulatory obligations.

16. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Capital assets				
Land	\$24 740 933		\$24 740 933	\$24 724 128
Building	349 137 299	\$109 646 325	239 490 974	248 418 934
Furniture and equipment	21 387 605	14 854 758	6 532 847	7 740 977
Layout	1 878 961	390 585	1 488 376	1 057 016
Data processing equipment	4 833 919	4 629 296	204 623	220 851
	<u>401 978 717</u>	<u>129 520 964</u>	<u>272 457 753</u>	<u>282 161 906</u>
Intangible assets				
Computer software	<u>2 349 743</u>	<u>2 003 142</u>	<u>346 601</u>	<u>80 395</u>
	<u>\$404 328 460</u>	<u>\$131 524 106</u>	<u>\$272 804 354</u>	<u>\$282 242 301</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**16. CAPITAL ASSETS (cont'd)**

On September 30, 1998, the Société received Gouvernement du Québec authorization to proceed with the Palais des congrès expansion. A related corporation, Société immobilière du Québec, which is commonly controlled, was mandated to do this work for remuneration. At March 31, 2009, holdbacks payable to the Société immobilière du Québec to reimburse construction costs were \$2 694 612 and were included in "Accounts payable and accrued liabilities". The total estimated project cost was \$257 800 000. On June 8, 2005, the Gouvernement du Québec authorized a budget increase to \$280 700 000, corresponding to the amount required to settle claims at March 31, 2009 regarding the Palais des congrès expansion. Cumulated project costs at March 31, 2009 totalled \$272 851 577 and break down as:

Land	\$21 755 881
Building	244 460 517
Furniture and equipment	<u>6 655 179</u>
	<u>\$272 871 577</u>

17. GOUVERNEMENT DU QUÉBEC SUBSIDY RECOVERABLE

	<u>2009</u>	<u>2008</u>
The subsidy recoverable breaks down as:		
Opening balance	\$40 583 972	\$37 742 439
Subsidy for capital assets and issuing and management fees financed	9 955 659	9 998 105
Subsidy for accrued interest on borrowings	<u>14 600 111</u>	<u>15 144 626</u>
	65 139 742	62 885 170
Subsidy for payment of interest and capital for the fiscal year	<u>(23 382 103)</u>	<u>(22 301 198)</u>
Closing balance	<u>\$41 757 639</u>	<u>\$40 583 972</u>

This balance pertains to the following items of the balance sheet:

Financing Fund borrowing (Note 19)	\$289 685 914	\$298 099 762
Unamortized balance of capital assets and issuing and management fees financed over the long term	<u>(252 374 130)</u>	<u>(262 094 136)</u>
	37 311 784	36 005 626
Accrued interest on borrowings	<u>4 445 855</u>	<u>4 578 346</u>
	<u>\$41 757 639</u>	<u>\$40 583 972</u>
Short-term portion	\$13 521 787	\$13 227 847
Long-term portion	<u>28 235 852</u>	<u>27 356 125</u>
	<u>\$41 757 639</u>	<u>\$40 583 972</u>

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

18. DEFERRED CONTRIBUTIONS

	2009	2008
Deferred Gouvernement du Québec contribution:		
Opening balance	\$310 322	\$331 010
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets (1)	20 688	20 688
	<u>289 634</u>	<u>310 322</u>
Deferred lender's contribution:		
Opening balance	326 338	348 094
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets (1)	21 756	21 756
	<u>304 582</u>	<u>326 338</u>
Deferred dealer's contribution:		
Opening balance	149 706	159 686
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets (1)	9 981	9 980
	<u>139 725</u>	<u>149 706</u>
Deferred Hydro-Québec contribution:		
Opening balance	83 565	89 993
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets (1)	6 428	6 428
	<u>77 137</u>	<u>83 565</u>
Deferred Government of Canada contribution:		
Opening balance	9 000 000	9 600 000
Minus:		
Transfer to revenues of an amount equal to the amortization of the related capital assets (1)	600 000	600 000
	<u>8 400 000</u>	<u>9 000 000</u>
	<u>\$9 211 078</u>	<u>\$9 869 931</u>

(1) Amortization of the fiscal year's deferred contributions totalled \$658 853 (March 31, 2008: \$658 852).

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

19. LONG-TERM DEBT**From the Gouvernement du Québec's Financing Fund**

	<u>2009</u>	<u>2008</u>
Notes payable		
Fixed rate of 5.234% annually (effective rate of 5.3379%), repayable in semi-annual instalments of \$1 172 832, until March 30, 2015 and by an instalment of \$22 505 336 maturing September 30, 2015	\$28 306 710	\$29 109 130
Fixed rate of 5.159% annually (effective rate of 5.2616%), repayable in semi-annual instalments of \$4 683 303, until April 1, 2013 and by an instalment of \$97 938 039 maturing October 1, 2013	114 639 725	117 850 175
Fixed rate of 4.6035% annually (effective rate of 4.6965%), repayable in semi-annual instalments of \$4 358 531, until February 6, 2011 and by an instalment of \$106 499 726 maturing August 6, 2011	113 484 496	116 757 159
Fixed rate of 4.343% annually (effective rate of 4.4456%), repayable in semi-annual instalments of \$201 051, until June 1, 2016 and by an instalment of \$4 445 695 maturing December 1, 2016	5 737 961	5 880 360
Fixed rate of 4.598% annually (effective rate of 4.7051%), repayable in semi-annual instalments of \$1 157 508, until April 1, 2013 and by an instalment of \$22 466 006 maturing October 1, 2013	<u>27 517 022</u>	<u>28 502 938</u>
	289 685 914	298 099 762
Minus: Instalments due within one year	<u>9 075 932</u>	<u>8 649 500</u>
	<u><u>\$280 609 982</u></u>	<u><u>\$260 341 132</u></u>

Principal payments on the long-term debt for the next five fiscal years are:

2010	\$9 075 932
2011	9 523 464
2012	112 634 016
2013	6 447 533
2014	124 383 932

To ensure repayment of the principal and interest on borrowings contracted under the borrowing plan set up by the Société, the Gouvernement du Québec is authorized, after having ensured that the Société is unable to meet its obligations under one of these borrowings, to pay the amounts required to make up for this inability. Financing costs are included in the capital payments to be made over the coming five fiscal years on the debt principal.

20. FINANCIAL INSTRUMENTS**Fair value**

The following methods and assumptions were used to estimate the fair value of the financial instruments in the balance sheet.

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value, given that they mature in the near future.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
20. FINANCIAL INSTRUMENTS (cont'd)
Fair value (cont'd)

The fair value of the elements of the long-term debt is determined using the actualized value of future cash flows under current financing agreements, at interest rates offered on the market to the Société for borrowings with similar conditions and terms. The fair value is:

	2009		2008	
	Book value	Fair value	Book value	Fair value
Long-term debt (including short-term portion)	<u>\$289 685 914</u>	<u>\$322 012 866</u>	<u>\$298 099 762</u>	<u>\$319 119 589</u>

Credit risk

The Société's credit risk exposure corresponds to the financial assets' book value. The credit risk related to these assets is not concentrated in a single activity sector. The Société evaluates these assets on an ongoing basis and posts a provision for losses when the accounts are deemed uncollectible. As of the date of the balance sheet, 8.8% of the receivables equivalent to \$77 031 had been overdue for more than 90 days.

Liquidity risk

Contractual cash flows pertaining to the entity's financial liabilities can be broken down as follows:

	Face value	Total contractual cash flows	Maturity date				
			Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
Financial liabilities							
Expenses due and accrued	\$12 193 172	\$12 193 172	\$12 193 172				
Long-term debt	<u>289 685 914</u>	<u>347 126 379</u>	<u>11 573 225</u>	<u>\$11 573 225</u>	<u>\$23 146 449</u>	<u>\$269 846 063</u>	<u>\$30 987 418</u>
	<u>\$301 879 086</u>	<u>\$359 319 551</u>	<u>\$23 766 397</u>	<u>\$11 573 225</u>	<u>\$23 146 449</u>	<u>\$269 846 063</u>	<u>\$30 987 418</u>

The entity is of the opinion that it possesses sufficient investments that are readily convertible into cash to meet its current obligations. Moreover, the payment of interest on long-term debt is covered by a specific subsidy from the Gouvernement du Québec, which has also undertaken to pay the Société the amounts required to compensate for the non-fulfilment of its obligations should the Société be unable to meet them in respect of any of its borrowings.

Exchange-rate risk

Some of the Société's transactions are in foreign currency. It neither holds nor issues financial instruments to manage the exchange rate risk to which it is exposed. However, these risks do not significantly affect the Société's results and financial situation.

Interest-rate risk

On the date of the balance sheet, the profile of the Société's interest rates can be broken down as follows:

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

20. FINANCIAL INSTRUMENTS (cont'd)**Interest-rate risk (cont'd)**

	2009	2008
Fixed interest rate		
Financial assets		
Temporary investments	\$25 655 176	\$17 978 681
Financial liabilities		
Long-term debt	289 685 914	298 099 762
Variable interest rate		
Financial assets		
Long-term investment	1 625 500	3 141 500

20. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, that is, the amount agreed on by the parties. The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

21. FUTURE FRINGE BENEFITS**Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Pension Plan of Management Personnel (PPMP). These inter-enterprise plans are defined-benefit plans that include guaranteed payments on retirement and death.

At January 1, 2009, the Société's RREGOP contribution rate remained unchanged at 8.19% of total payroll and that of the PPMP, 10.54%.

The Société's contributions charged to the year-end statement totalled \$445 299 (2008: \$377 287). Its liability towards these Government plans is restricted to its employer contributions.

22. COMMITMENTS

The Société is committed under long-term contracts expiring on various dates up to March 31, 2012 for guard, maintenance and specialized maintenance services.

Minimum future payments under these commitments are:

2010	\$3 957 532
2011	2 463 292
2012	2 245 032
	<u>\$8 665 856</u>

24. COMPARATIVE FIGURES

Certain figures for the preceding fiscal year have been reclassified to bring them into line with the presentation adopted for the current fiscal year.

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL**MANAGEMENT'S REPORT**

The financial statements of the Société du Palais des congrès de Montréal were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approve them.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any element matter related to the audit.

André Saucier, CGA
Acting President and CEO

Lucie Vaillancourt, CA
Comptroller

Montréal, May 15, 2009

SOCIÉTÉ DU PALAIS DES CONGRÈS DE MONTRÉAL

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du Palais des congrès de Montréal as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes to accounting policies for financial instruments disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 15, 2009

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
(R.S.Q., c. S-16.001)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008
REVENUES (Note 4)	<u>\$7 031 853</u>	<u>\$5 335 425</u>
EXPENSES		
Operating expenses by category (Note 5)		
Salaries and fringe benefits	1 136 525	1 122 746
Maintenance and repairs	967 444	760 491
Materials and supplies	555 453	648 914
Professional, administrative and other services	223 566	281 819
Municipal and school taxes	212 077	190 453
Travelling and communications	176 859	179 443
Caretaking	70 974	75 721
Advertising and promotion	43 829	56 545
Other charges	16 500	8 460
	<u>3 403 227</u>	<u>3 324 592</u>
Amortization of capital assets	2 154 251	2 063 466
	<u>5 557 478</u>	<u>5 388 058</u>
Other charges		
Financial expenses (Note 6)	940 796	951 130
Partial financing of Bécancour's water supply and sewer systems (Note 15)	47 863	47 464
	<u>6 546 137</u>	<u>6 386 652</u>
NET INCOME (NET LOSS)	485 716	(1 051 227)
OPENING CUMULATED SURPLUS	<u>11 919 814</u>	<u>12 971 041</u>
CLOSING CUMULATED SURPLUS	<u><u>\$12 405 530</u></u>	<u><u>\$11 919 814</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOURBALANCE SHEET
as at March 31, 2009

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	\$858 962	\$605 081
Term deposits (Note 7)	1 000 000	1 300 000
Accounts receivable (Note 8)	639 954	1 297 394
Spare parts inventory (Note 9)	95 662	100 640
Prepaid expenses	80 569	82 962
	<u>2 675 147</u>	<u>3 386 077</u>
Land inventory	5 441 142	5 463 439
Capital assets (Note 10)	<u>24 984 079</u>	<u>25 358 238</u>
	<u><u>\$33 100 368</u></u>	<u><u>\$34 207 754</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$744 154	\$1 245 425
Accrued interest on long-term debt	407 827	425 922
Holdback on contracts	76 882	17 817
Deferred product	179 720	161 836
Short-term portion of the long-term debt (Note 13)	<u>1 408 583</u>	<u>1 000 000</u>
	1 408 583	2 851 000
Provision for sick leave (Note 18)	131 406	143 887
Deferred government assistance - amortized cost (Note 12)	2 223 969	2 352 420
Long-term debt (Note 13)	<u>16 930 880</u>	<u>16 940 633</u>
	20 694 838	22 287 940
CUMULATED SURPLUS	<u>12 405 530</u>	<u>11 919 814</u>
	<u><u>\$33 100 368</u></u>	<u><u>\$34 207 754</u></u>
COMMITMENTS (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Henri Boudreau, President
Jean Rousseau, Vice-President

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOURSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net income (Net loss)	\$485 716	\$(1 051 227)
Adjustments for:		
Amortization of capital assets	2 154 251	2 063 466
Amortization of issuing	11 247	6 210
Gain on sale of land	(310 227)	(16 322)
Gain on sale of capital assets	(800)	
Payment of deferred government assistance	(128 451)	(109 078)
	<u>2 211 736</u>	<u>893 049</u>
Acquisition of property	(121 628)	
Proceeds from sale of property	454 152	25 949
Government assistance		290 894
Changes in assets and liabilities related to operations (Note 16)	<u>543 573</u>	<u>(331 207)</u>
Cash flows related to operating activities	<u>3 087 833</u>	<u>878 685</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(2 113 752)	(930 357)
Revenue from sale of capital assets	<u>800</u>	
Cash flows related to investment activities	<u>(2 112 952)</u>	<u>(930 357)</u>
FINANCING ACTIVITIES		
New long-term debt	3 000 000	
Repayment of long-term debt	(4 000 000)	
Flotation costs	<u>(21 000)</u>	
Cash flows from financing activities	<u>(1 021 000)</u>	
DECREASE IN CASH AND CASH EQUIVALENTS	(46 119)	(51 672)
OPENING CASH AND CASH EQUIVALENTS	<u>1 905 081</u>	<u>1 956 753</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 16)	<u>\$1 858 962</u>	<u>\$1 905 081</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société du parc industriel et portuaire de Bécancour was established under a special act (R.S.Q., c. S-16.001) to foster the economic development of Québec by developing and operating an industrial park with harbour facilities within the territory of the town of Bécancour with self-financing as an objective. Under federal and provincial tax legislation, the Société does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main items in respect of which management has established estimates and formulated assumptions are the provision for sick leave, the useful life-span of tangible capital assets, and the provision for uncollectible losses. Real results may differ from these estimates.

Revenue reporting

Revenues from port and industrial water services are posted when received. The Société reports its basic rent using the straight-line method over the duration of leasing contracts. Revenues from easements are reported when easements are granted. All of these revenues are reported when there is convincing evidence of an agreement, the price the buyer must pay has been, or can be, determined and recovery is reasonably certain.

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents.

Spare parts inventory

The spare parts inventory is assessed at the lower of cost and net realizable value. The cost is established according to the first in-first out method. The net realizable value represents the estimated selling price for inventories, reduced by the estimated cost of providing the service.

Property inventory

The properties in inventory are posted at the lower of cost and net realizable value. The cost is established according to the first in-first out method. The net realizable value represents the estimated selling price for land, reduced by the estimated cost of effecting the sale. The municipal and school taxes and interest related to the purchase of these properties are posted to operations.

Capital assets

Capital assets are posted at cost and amortized at the time of their use and on a straight-line basis at the following rates:

Buildings, storage areas and parking space	2 1/2% to 5%
Harbour facilities	2 1/2% to 20%
Vehicles	20%
Equipment	6 2/3% to 10%
Water supply and sewer systems	3 1/3% to 5%
Industrial water plant and distribution system	2 1/2% and 5%
Roads and streets	4% and 5%
Rail network	2 1/2%
Office furniture and equipment	10% and 20%

The Société regularly examines the book value of its fixed assets, comparing it to the non-actualized future cash flows expected to be generated by them. Any surplus in book value over the fair value is posted to results for the period in which the depreciation was determined.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)

Deferred government assistance

Subsidies for the acquisition of capital assets are posted to “Deferred government assistance” and transferred to results using the same method and amortization rates as the subsidized capital assets to which they are related. Subsidies for operating expenses are posted to “Other revenue”.

Pension plan

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The provision for sick leave is established by means of an actuarial method that takes into account the earned benefits on the closing date. The value of the actuarial obligations is established according to the most probable economic assumptions, which are re-evaluated each year.

Financial instruments

Financial assets and liabilities are initially reported at fair value and their subsequent measurement depends on their classification, as described below. Their classification depends on the objective when the financial instruments were acquired or issued, their characteristics and their designation by the Société.

Classification

Cash	Held for transaction purposes
Term deposit	Held for transaction purposes ¹
Accounts receivable	Loans and accounts receivable
Bank borrowing	Other liabilities
Accounts payable and accrued liabilities	Other liabilities
Accrued interest on long-term debt	Other liabilities
Hold-back on contracts	Other liabilities
Long-term debt	Other liabilities

1 designated irrevocably

Held for transaction purposes

The financial assets held for transaction purposes are financial assets that are generally acquired for resale before maturity or were irrevocably designed as held for transaction purposes. They are measured at fair value at the closing date. The fair value of short-term financial assets generally corresponds to their cost, given that they mature in the near future.

The financial liabilities classified as held for transaction purposes are non-derivative financial liabilities that the Société chooses to designate irrevocably, when initially measured, as instruments it will measure at fair value. No non-derivative financial liability has yet been designated by the Société as held for transaction purposes.

Loans and accounts receivable

Loans and accounts receivable do not include debt instruments. Subsequent measurement of loans and accounts receivable is at amortized cost using the effective interest rate method. Interest income is included under interest on cash and term deposits.

Other liabilities

Other liabilities are recognized at cost after amortization using the effective interest rate method and including all financial liabilities apart from derivative instruments.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)**Transaction costs

Transaction costs related to financial assets and liabilities held for transaction purposes are posted to expenses when they are incurred. The transaction costs linked to financial assets available for sale, financial assets held until maturity, other liabilities and loans and accounts receivable are taken into consideration in determining the book value of the asset or liability are then reported using the effective interest rate method.

Comprehensive income

The Société did not classify any financial instrument as a financial asset available for sale. Consequently, comprehensive income does not differ from net income (net loss).

3. CHANGE IN ACCOUNTING POLICIES**Spare parts inventory**

On April 1, 2008, the Société applied the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning the new Chapter 3031, "Inventories." The chapter prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent recognition in expenses, including any depreciation up to the net realizable value.

In accordance with this new chapter, the main spare parts that can only be used with a capital asset have been reclassified as tangible assets. This modification applied retroactively changed the following balance sheet items as at March 31, 2008 and did not affect the income since the spare parts are now out of service for an extended period:

2008

BALANCE SHEET

Spare parts inventory	\$(99 099)
Capital assets	99 099

Capital disclosures

On April 1, 2008, the Société adopted the recommendations in Chapter 1535 of the CICA handbook entitled "Capital Disclosures." This chapter establishes the standards governing the presentation of disclosures on a corporation's capital and the manner in which it is managed. The requisite information is presented in Note 14. The adoption of this chapter did not have any impact on the Société's results.

Financial Instruments – Disclosure and Financial Instruments - Presentation

On April 1, 2008, the Société adopted the recommendations in Chapters 3862 and 3863 of the CICA handbook entitled "Financial Instruments – Disclosure" and "Financial Instruments – Presentation." Chapters 3862 and 3863 replace chapter 3861, "Financial Instruments – Disclosure and Presentation." These chapters modify the requirements in respect of presentation from the standpoint of notes in the financial statements. They attach greater importance to disclosures on the nature and scope of risks stemming from financial instruments and the manner in which the Société manages such risks. The requisite information is presented in Note 19.

Adjustment of the accounting estimates

The Société has modified during the fiscal year its method of evaluating obligations in respect of sick leave credits. These obligations will from now on be evaluated according to an actuarial method that takes in account the breakdown of accrued benefits. This change in the accounting estimate reduced by \$5 373 the value of the obligation as at March 31, 2009. The impact of this change has been recorded prospectively in the results for the fiscal year.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

4. REVENUES

	2009	2008
Operating income:		
Port services	\$3 542 996	\$2 973 923
City of Bécancour's reimbursement of certain maintenance costs	850 000	850 000
Industrial water service	673 317	710 413
Building rental	496 252	438 408
Payment of government assistance	128 451	109 078
Interest on cash and term deposits (held for transaction purposes)	49 917	99 555
Other revenues	14 705	7 322
Gain on sale of capital assets	800	
	<u>5 756 438</u>	<u>5 188 699</u>
Revenues related to property inventory:		
Revenues from sale of properties	454 152	25 949
Cost of land sold	143 925	9 627
	<u>310 227</u>	<u>16 322</u>
Public services publics related to sale of properties	965 188	67 467
Emphyteusis		62 937
	<u>1 275 415</u>	<u>146 726</u>
	<u><u>\$7 031 853</u></u>	<u><u>\$5 335 425</u></u>

**5. OPERATING COSTS BY ACTIVITY SECTOR,
BEFORE AMORTIZATION OF CAPITAL ASSETS**

	2009	2008
Overall administration	\$1 258 324	\$1 331 208
Industrial water plant and distribution system	555 713	670 677
Port facilities	487 897	346 573
Buildings	433 472	375 406
Transportation networks	337 090	302 869
Drinking water supply and sewage systems	180 970	143 056
Vehicles and equipment	149 761	154 803
	<u>\$3 403 227</u>	<u>\$3 324 592</u>

6. FINANCIAL FEES

	2009	2008
Other financial liabilities		
Interest on bank borrowing	\$8 911	\$602
Interest on long-term debt	931 885	950 528
	<u>\$940 796</u>	<u>\$951 130</u>

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOURNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**7. TERM DEPOSIT**

A term deposit bearing interest at the fixed rate of 2.25% (2008: 4.3%), maturing on December 18, 2009 and redeemable at any time without penalty.

8. ACCOUNTS RECEIVABLE

	2009	2008
Clients	\$590 869	\$713 683
Government assistance		463 894
Other	49 085	119 817
	<u>\$639 954</u>	<u>\$1 297 394</u>

9. SPARE PARTS INVENTORY

The cost of inventory recorded in expenditure under the item "Maintenance and repairs" during the fiscal year stood at \$15 466 (\$13 461 in 2008).

10. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Land	\$28 069		\$28 069	\$28 069
Buildings, storage areas and parking space	3 965 118	\$2 595 264	1 369 854	1 469 518
Port facilities ¹	41 637 495	25 938 883	15 698 612	16 300 849
Vehicles and equipment	806 948	570 950	235 998	224 563
Water supply and sewer systems	7 364 727	5 181 209	2 183 518	2 300 304
Industrial water plant and distribution system ^{1,2}	12 677 020	10 101 387	2 575 633	2 460 848
Transportation network:				
Roads and streets	10 761 992	8 853 941	1 908 051	1 562 218
Rail network	1 472 564	539 934	932 630	969 444
Office furniture and equipment	301 653	249 939	51 714	42 425
	<u>\$79 015 586</u>	<u>\$54 031 507</u>	<u>\$24 984 079</u>	<u>\$25 358 238</u>

1 The port facilities of the plant and industrial water distribution system include respective amounts of \$81 542 and \$553 901 of buildings under construction, which are not amortized.

2 The plant and the industrial water distribution system include an amount of \$99 099 for spare parts in respect of which no amortization has been recorded since their acquisition as they have been out of service for an extended period.

11. BANK BORROWING

The Société has a bank credit line of \$1 500 000 guaranteed by the Gouvernement du Québec and renewable annually on October 31. Amounts withdrawn bear interest at the prime rate. At March 31, 2009, the prime rate was 2.5 % (2008 : 5.25 %) and the balance owing on this borrowing was zero.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. DEFERRED GOVERNMENT ASSISTANCE – AMORTIZED COST

	2009	2008
Gouvernement du Québec	\$1 076 433	\$1 127 323
Government of Canada	385 202	421 288
Ville de Bécancour	762 334	803 809
	<u>\$2 223 969</u>	<u>\$2 352 420</u>

In 2008, \$290 894 was reported under deferred Government assistance. This amount applies to the acquisition of capital assets. No new assistance was recorded in 2009.

13. LONG-TERM DEBT

	2009	2008
Term note from the Gouvernement du Québec's Financing Fund issued during the year		\$3 999 547
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 6.284%, capital of \$10 000 000 repayable in October 2012	\$9 970 445	9 963 102
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 4.906%, capital of \$4 000 000 repayable in December 2015	3 980 411	3 977 984
Term note from the Gouvernement du Québec's Financing Fund, effective rate of 4.53%, capital of \$3 000 000 repayable in December 2017	<u>2 980 024</u>	
	16 930 880	17 940 633
Short-term portion of long-term debt		<u>1 000 000</u>
	<u>\$16 930 880</u>	<u>\$16 940 633</u>

14. CAPITAL DISCLOSURES

The Société defines its capital as the cumulated surplus and the long-term debt.

Pursuant to its enabling legislation, the Société is a mandatary of the government. Its property is part of the public domain and it must obtain the government's authorization to effect certain borrowings or acquisitions or dispose of property. The Corporation is not subject to any other requirement in respect of capital by an external source.

The Société manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

15. COMMITMENTS**Partial financing of Bécancour's water supply and sewer systems**

Under an agreement with the town of Bécancour, ratified by the Gouvernement du Québec on April 11, 1973, the Société is authorized to participate in the financing, until 2011, of the water supply and sewer systems servicing the industrial park and part of the town.

The Société is committed to paying the annual debt service on one borrowing by the town of Bécancour. As at March 31, 2009, the balance of this commitment was \$134 200 (2008: \$175 100). The participation (principal and interest) during the fiscal year was \$47 863 (2008: \$47 464).

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

16. CASH FLOWS

The additional cash flow information is:

	2009	2008
Changes in assets and liabilities related to operations		
Accounts receivable	\$657 440	\$(447 386)
Spare parts inventory	4 978	(686)
Prepaid expenses	2 393	25 148
Accounts payable and accrued liabilities	(108 546)	46 835
Accrued interest on the long-term debt	(18 095)	1 598
Deferred revenues	17 884	(1 217)
Provision for sick leave	(12 481)	44 501
	<u>\$543 573</u>	<u>\$(331 207)</u>
Cash and cash equivalents		
Cash on hand	\$858 962	\$605 081
Term deposits	1 000 000	1 300 000
	<u>\$1 858 962</u>	<u>\$1 905 081</u>
Additional information		
Interest paid on long-term debt	<u>\$967 012</u>	<u>\$942 720</u>

At March 31, 2009, "Holdback on contracts" included \$76 882 (2008: \$17 817) in acquisitions and "Accounts payable and accrued liabilities" included capital asset acquisitions of \$466 215 (2008: \$858 940).

17. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements, measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

18. FUTURE FRINGE BENEFITS**Pension plan**

The staff members of the Société participate in the Government and Public Employees Retirement Plan (RREGOP), Pension Plan of Management Personnel (PPMP) or Retirement Plan for Senior Officials (RPSO), which are inter-enterprise defined-benefit plans that include guaranteed payments upon retirement and death.

At January 1, 2008, the agency's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP and RPSO from 7.78% to 10.54%. No modification occurred in 2009.

The Société's contributions charged to the year-end statement totalled \$59 102 (2008: \$49 046). Its liability towards these Government plans is restricted to its employer contributions.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
18. FUTURE FRINGE BENEFITS (cont'd)
Provision for sick leave

	2009	2008
Opening balance	\$143 887	\$99 386
Annual expenses	29 116	92 339
Benefits paid	(41 597)	(47 838)
Closing balance	<u>\$131 406</u>	<u>\$143 887</u>

The sick leave accumulation program has been updated, based, in particular, on the following long-term estimates and economic assumptions as at March 31, 2009:

Growth rate of remuneration	Between 3.85 % and 4.35%
Capitalization rate	4.25 %
Average remaining service period of active employees	10 years

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In view of its assets and financial liabilities, the Société is exposed to the following risks in respect of the use of financial instruments: credit risk, interest rate risk, and liquidity risk. The analysis below covers risks as at March 31, 2009.

Credit risk

The Société's main financial assets include cash on hand, term deposits and accounts receivable, which are subject to credit risk. The book value of the financial assets on the balance sheet represents the Société maximum credit risk.

The Société's credit risk is primarily attributable to its accounts receivable. The amounts are presented in the balance sheet minus the provision for uncollectible losses, which has been estimated by the Société's management in light of previous experience and its assessment of current economic conditions. To reduce risk, management constantly assesses the financial position of its clients and examines the credit history of all new clients. The Société has two major clients that account for roughly 43% of all accounts receivable as at March 31, 2009.

Credit risk related to cash on hand and the term deposit is limited since the counterparties are chartered banks that have high credit ratings attributed by national credit rating agencies.

As at March 31, 2009, the classification by maturity date of accounts receivable can be broken down as follows:

	2009	2008
Clients		
Not overdue – 0 to 60 days	\$587 540	\$710 867
Between 61 and 90 days	2 660	
More than 91 days	669	2 816
	<u>\$590 869</u>	<u>\$713 683</u>

The change in the provision for uncollectible losses is \$0 on the balance sheet (2008: \$0) and the impact on the results is \$0 (2008: \$460).

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**Interest rate risk**

Interest rate volatility affects the fair value of financial assets and liabilities (market risk related to the fixed interest rate) and cash and cash equivalents (cash flow risks related to variable interest rates).

The long-term debt and the term deposit bear fixed interest rates. Consequently, cash flow risks are minimal. The market risk linked to the interest rate is limited given that the Société intends to respect the anticipated maturity dates.

20. FIGURES FOR THE PRECEDING FISCAL YEAR

Certain 2008 figures were reclassified to bring them into line with the presentation adopted in 2009.

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR**MANAGEMENT'S REPORT**

The financial statements of the Société du parc industriel et portuaire de Bécancour were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors oversees the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report presents the nature and scope of his audit and expresses his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Danielle Hébert, CA
Director of Finance

M^c Guy LeBlanc
President and Chief Executive Officer

Bécancour, May 12, 2009

SOCIÉTÉ DU PARC INDUSTRIEL ET PORTUAIRE DE BÉCANCOUR

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société du parc industriel et portuaire de Bécancour as at March 31, 2009 and the statements of operations and cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the adoption of new standards governing inventories, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 12, 2009

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC
(R.S.Q., c. S-17)

CONSOLIDATED STATEMENT OF OPERATIONS
year ended December 31, 2008 with comparative figures for 2007
(in thousands of dollars)

	2008	2007
REVENUE (Note 4)	<u>1 092 023</u>	<u>1 051 207</u>
OPERATING EXPENSES:		
Cost of goods sold	902 386	892 560
Selling, general and administrative expenses	106 809	102 443
Amortization (Notes 10 and 11)	57 269	61 843
Goodwill impairment		181
	<u>1 066 464</u>	<u>1 057 027</u>
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS	25 559	(5 820)
Share of earnings (loss) from companies subject to significant influence	(35 121)	11 606
Dividend and interest income on investments	<u>9 044</u>	<u>5 530</u>
Operating earnings (loss) from continuing operations before the undernoted items	(518)	11 316
Gain on change in the fair value of investment companies	10 377	24 284
Unrealized losses on non-bank-sponsored asset-backed commercial paper, net of interest in arrears (Note 8)	(33 719)	(21 223)
Other losses on investments (Note 9)	(3 658)	(31 567)
Write-down of property, plant and equipment and other assets	(1 443)	(3 562)
Net gain on disposal of investments and other items	<u>24 394</u>	<u>147 780</u>
OPERATING EARNINGS (LOSS) FROM CONTINUING OPERATIONS	(4 567)	127 028
Financial (expenses) income (Note 5)	(27 998)	5 732
Other income	<u>1 765</u>	<u>75</u>
EARNINGS (LOSS) FROM CONTINUING OPERATIONS (Note 4)	(30 800)	132 835
Loss from discontinued operations (Note 7)	<u>(230 250)</u>	<u>(75 349)</u>
NET EARNINGS (LOSS) (Note 4)	<u><u>(261 050)</u></u>	<u><u>57 486</u></u>

See the accompanying notes to the Consolidated Financial Statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED BALANCE SHEET

as at December 31

(in thousands of dollars)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	101 733	143 305
Temporary investments, interest rate varying from 3.00% to 3.94%	4 867	4 382
Accounts receivable	153 102	184 898
Inventories (Note 6)	157 573	198 329
Prepaid expenses	5 901	6 230
Current portion of investments (Note 9)	11 362	61 966
Current portion of other assets (Note 11)	1 881	1 570
Current assets held for sale (Note 7)	13 965	21 291
	450 384	621 971
Investments (Notes 8 and 9)	537 330	684 842
Property, plant and equipment (Note 10)	880 779	989 695
Goodwill	732	647
Other assets (Note 11)	120 387	112 423
Long-term assets held for sale (Note 7)	6 566	112 389
TOTAL ASSETS	1 996 178	2 521 967
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Bank overdraft	1 519	970
Bank loans (Note 12 a))	10 170	17 697
Accounts payable and accrued liabilities	114 950	141 175
Current portion of long-term debt (Note 12)	28 985	127 485
Current portion of other long-term liabilities (Note 13)	6 227	8 315
Current liabilities of businesses held for sale (Note 7)	13 089	12 648
	174 940	308 290
Deferred grant (Notes 10 and 11)	71 680	73 452
Long-term debt (Note 12)	202 723	184 186
Other long-term liabilities (Note 13)	70 591	38 255
Long-term liabilities of businesses held for sale (Note 7)	7 382	8 022
	527 316	612 205
Shareholder's equity:		
Share capital (Note 14)	2 173 340	2 173 340
Deficit	(482 642)	(221 592)
Accumulated other comprehensive income (Note 15)	(221 836)	(41 986)
	1 468 862	1 909 762
Commitments, guarantees and contingencies (Note 21)		
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1 996 178	2 521 967

See the accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors,
Stephen Rosenhek, CA, Director
José P. Dorais, Director

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE INCOME
year ended December 31, 2008 with comparative figures for 2007
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
DEFICIT AT BEGINNING	(221 592)	(273 608)
Initial impact of adopting the accounting standards related to financial instruments	<u>(221 592)</u>	<u>(5 470)</u>
Net earnings (loss)	<u>(261 050)</u>	<u>57 486</u>
DEFICIT AT END	<u>(482 642)</u>	<u>(221 592)</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME AT BEGINNING	(41 986)	62 838
Other comprehensive income	<u>(179 850)</u>	<u>(104 824)</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME AT END	<u>(221 836)</u>	<u>(41 986)</u>
TOTAL	<u><u>(704 478)</u></u>	<u><u>(263 578)</u></u>

See the accompanying notes to the Consolidated Financial Statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
year ended December 31, 2008 with comparative figures for 2007
(in thousands of dollars)

	2008	2007
NET EARNINGS (LOSS)	<u>(261 050)</u>	<u>57 486</u>
Other comprehensive income		
Net unrealized gains and losses on available-for-sale financial assets		
Unrealized gains (losses)		
- Listed shares	(175 558)	(42 443)
- Debt securities	602	(376)
Reclassification of realized losses (gains) in net earnings (loss)	320	(60 514)
Reclassification of a realized gain against an investment		(1 647)
	<u>(174 636)</u>	<u>(104 980)</u>
Net unrealized gains and losses on a cash flow hedge		
Unrealized gains	1 761	625
Reclassification of realized gains in net earnings (loss)	(1 761)	(625)
Share of unrealized (losses) gains of a company subject to significant influence	(3 994)	1 133
Share of reclassification of realized losses (gains) of a company subject to significant influence in net earnings (loss)	1 103	(980)
	<u>(2 891)</u>	<u>153</u>
Share of unrealized losses on the foreign currency translation of a company subject to significant influence	<u>(2 295)</u>	<u>(116)</u>
Other comprehensive income from continuing	(179 822)	(104 943)
Other comprehensive income from discontinued	<u>(28)</u>	<u>119</u>
COMPREHENSIVE INCOME	<u>(440 900)</u>	<u>(47 338)</u>

See the accompanying notes to the Consolidated Financial Statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS
year ended December 31, 2008 with comparative figures for 2007
(in thousands of dollars)

	2008	2007
OPERATING ACTIVITIES:		
Earnings (loss) from continuing operations	(30 800)	132 835
Adjustments for:		
Amortization	57 269	61 843
Share of (earnings) loss from companies subject to significant influence	35 121	(11 606)
Gain on change in the fair value of investment companies	(10 377)	(24 284)
Unrealized losses on non-bank-sponsored asset-backed commercial paper, net of interest in arrears	33 719	21 223
Other losses on investments	3 658	31 567
Write-down of property, plant and equipment and other assets	1 443	3 562
Goodwill impairment		181
Net gain on disposal of investments and other items	(24 394)	(147 780)
Foreign exchange gain (loss) on long-term debt and investments	12 371	(12 598)
Dividends received from companies subject to significant influence		1 674
Employee future benefits	(278)	(96)
Capitalized interest	521	3 413
Other items, net	5 436	(4 834)
	83 689	55 100
Net change in non-cash operating working capital items (Note 17)	(24 353)	18 321
Cash flows related to continuing operating activities	59 336	73 421
Cash flows related to discontinued operating activities	(5 008)	(21 037)
Cash flows related to operating activities	54 328	52 384
INVESTING ACTIVITIES:		
Temporary investments	(485)	5 180
Business acquisitions and investments (Notes 4 and 18)	(80 813)	(349 911)
Disposal of businesses and of investments	102 993	223 265
Additions to property, plant and equipment (Notes 4 and 17b))	(19 749)	(18 355)
Other investing activities (Note 17b))	(4 534)	(8 432)
Cash flows related to continuing investing activities	(2 588)	(148 253)
Cash flows related to discontinued investing activities	(25 560)	(9 360)
Cash flows related to investing activities	(28 148)	(157 613)
FINANCING ACTIVITIES:		
Bank loans	(3 399)	4 263
Increase in long-term debt	491	9 305
Repayment of long-term debt	(23 733)	(15 661)
Payments of share subscriptions	(859)	(235)
Other financing activities	(1 400)	(52)
Cash flows related to continuing financing activities	(28 900)	(2 380)
Cash flows related to discontinued financing activities	(41 145)	20 258
Cash flows related to financing activities	(70 045)	17 878
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Amounts carried forward)	(43 865)	(87 351)

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
year ended December 31, 2008 with comparative figures for 2007
(in thousands of dollars)

	<u>2008</u>	<u>2007</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Amounts brought forward)	(43 865)	(87 351)
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>144 789</u>	<u>232 140</u>
CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS, AT END	100 214	142 335
CASH AND CASH EQUIVALENTS RELATED TO DISCONTINUING OPERATIONS, AT END	<u>710</u>	<u>2 454</u>
CASH AND CASH EQUIVALENTS, AT END	<u><u>100 924</u></u>	<u><u>144 789</u></u>
 CASH AND CASH EQUIVALENTS RELATED TO CONTINUING OPERATIONS INCLUDES THE FOLLOWING:		
Cash and cash equivalents	101 733	143 305
Bank overdraft	<u>(1 519)</u>	<u>(970)</u>
	<u>100 214</u>	<u>142 335</u>
 SUPPLEMENTARY CASH FLOW INFORMATION (Note 17)		
Interest paid	<u>17 300</u>	<u>21 360</u>

See the accompanying notes to the Consolidated Financial Statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

year ended December 31, 2008

(in thousands of dollars)

The Company was created in 1962 under the *Act respecting the Société générale de financement du Québec* (R.S.Q., Chapter S-17), which was amended in 1996. The Government of Québec is the sole shareholder. The purpose of the Company is to carry out economic development projects, particularly in the industrial sector, in cooperation with partners and in compliance with acceptable profitability requirements and the economic development policy of the Government of Québec. It has established a presence mainly in the following sectors: Mines, Materials, Energy, Environment, Forest Products, Technologies and Life Sciences, and Agri-Food.

1. NEW ACCOUNTING POLICIES

a) Capital disclosures and financial instruments – Presentation and disclosures

On January 1, 2008, the Company adopted three new accounting standards of the Canadian Institute of Chartered Accountants (“CICA”): Section 1535 *Capital disclosures*; Section 3862 *Financial instruments – Disclosures*; and Section 3863 *Financial instruments – Presentation*. The adoption of these standards did not have an impact on the Company’s income.

Section 1535 establishes standards for disclosing information about an entity’s capital and how it is managed. The purpose of these standards is to enable users of its financial statements to evaluate the entity’s objectives, policies and processes for managing capital. The Company’s disclosures are presented in Note 16, “Capital management”.

Sections 3862 and 3863 replace Section 3861 *Financial instruments – Presentation and disclosures*. Disclosures were reviewed and further enhanced, whereas presentation requirements remained unchanged. These new sections increase the importance of disclosing information on the nature and scope of the inherent risks of financial instruments and how the entity manages those risks. The additional information is presented in Note 9, “Investments” and in Note 19, “Financial instruments and management of financial risks”.

b) Inventories

On January 1, 2008, the Company adopted Section 3031 *Inventories*, which replaces Section 3030 of the same title. Section 3031 requires inventories to be measured at the lower of cost and net realizable value. It provides guidelines on how to determine the cost, including the allocation of overheads and other inventory-related costs. Furthermore, Section 3031 precludes the use of the last in, first out (“LIFO”) method and requires prior write-downs to be reversed in the event of a subsequent rise in the value of inventories. This standard also requires more information about inventories and the cost of goods sold. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

2. FUTURE CHANGES IN ACCOUNTING POLICIES

a) Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064 *Goodwill and intangible assets*, which replaces Section 3062 *Goodwill and other intangible assets* and Section 3540 *Research and development costs*. Changes were made to other CICA Handbook sections for consistency purposes. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and intangible assets by profit-oriented enterprises subsequent to initial recognition. With respect to goodwill, Section 3064 has the same requirements as former Section 3062. This new Section will apply to financial statements relating to fiscal years beginning on or after October 1, 2008. Consequently, the Company will adopt the new standards during its fiscal year beginning on January 1, 2009. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

b) International financial reporting standards (“IFRS”)

In February 2008, the Accounting Standards Boards of Canada confirmed that publicly accountable entities would be required to report under IFRS for fiscal years beginning on or after January 1, 2011. As of that year, the Company will prepare current and comparative financial information in accordance with IFRS. The Company expects this transition to have an impact on its financial information, business processes and information systems. The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES**a) Principles of consolidation**

These consolidated financial statements include the accounts of Société générale de financement du Québec and of its subsidiaries and joint ventures. The accounts of the subsidiaries are recorded using the consolidation method, whereas the accounts of the joint ventures are recorded using the proportionate consolidation method.

b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the use of estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the balance sheet and the reported amounts of revenue and expenses during the reporting period. The principal estimates are related to the measurement of the fair value of investments, the recoverability and impairment of property, plant and equipment, goodwill, and employee future benefits. Actual results could differ from these estimates. Estimates are reviewed periodically and, if adjustments become necessary, they are charged to income in the period in which they are known.

c) Financial instruments**i) Classification**

Cash and cash equivalents, temporary investments and non-bank-sponsored asset-backed commercial paper ("ABCP") are classified as "Assets held for trading" and are initially measured at fair value at the balance sheet date. Changes in fair value and transaction costs are recorded in income.

Accounts receivable are classified as "Loans and receivables" and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method. Interest income and related transaction costs are recorded in the consolidated statement of operations.

Bank overdrafts, bank loans, accounts payable and accrued liabilities, as well as long-term debt are classified in "Other financial liabilities". They are measured at amortized cost using the effective interest rate method. Transaction costs are recorded in income, except for those incurred at the issuance or upon changes in long-term loan instruments, which are presented net of long-term debt and amortized using the effective interest rate method over the expected term of the related long-term debt. Amortization is included in interest on long-term debt in the statement of operations.

Cash and cash equivalents

Cash and cash equivalents include cash, short term liquid investments with initial maturities of three months or less, and bank overdrafts.

Temporary investments

Temporary investments consist primarily of bankers' acceptances with maturities exceeding three months and up to one year.

ii) Fair value of financial instruments

The fair value of a financial instrument is generally the amount of consideration for which the instrument would be exchanged in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Publicly disclosed prices in an active market provide the best indication of fair value and, if they are available, the Company uses them to measure financial instruments. The fair value of a financial asset traded on an active market generally reflects the bid price, whereas a financial liability traded on an active market reflects the ask price. If the market of a financial instrument is not active, fair value is determined using a valuation technique based as much as possible on observable market data. These valuation techniques include, among other things, the use of available information on recent market transactions, the analysis of discounted cash flows and the valuation models.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

c) Financial instruments (cont'd)

ii) Fair value of financial instruments (cont'd)

When fair value is established using valuation models, the Company uses assumptions regarding the amount, maturity of estimated future cash flows and discount rates used. Assumptions are primarily based on observable factors in external markets, including factors such as interest rates, credit spreads, exchange rates, as well as price and rate volatility, as the case may be. Assumptions or data not founded on data from observable markets are used when external data is not available.

d) Revenue recognition

Revenue is recognized when the merchandise has been delivered to the customer, when the risks and rewards of ownership have been transferred to the customer, and when collection is reasonably assured.

e) Inventories

Inventories are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale or replacement cost.

f) Investments

- **Available for sale** — Investments are classified as available-for-sale financial assets, except for investments in companies subject to significant influence, investment companies, ABCP, as well as loans receivable classified as “Loans and receivables”.

Available-for-sale investments are measured at fair value, except for investments in equity instruments that do not have a quoted price in an active market and which are presented at cost. Unrealized gains and losses on available-for-sale investments are recorded in “Other comprehensive income”. At the time of disposal, these realized gains or losses, which are determined using the average cost method, are reclassified in “Net gain on disposal of investments and other items” in the consolidated statement of operations. Dividend and interest income are recorded in “Dividend and interest income on investments” in the consolidated statement of operations.

Available-for-sale investments are measured periodically to determine if there is objective evidence of impairment. The factors the Company takes into account to determine if there is objective evidence of impairment include the duration and amount of the decrease in fair value in relation to cost or amortized cost, the Company’s financial position and prospects, as well as the Company’s intention to hold the investment long enough to ensure full recovery of its fair value. If there is objective evidence of impairment of an investment that translates into an other-than-temporary decline in fair value below cost or amortized cost, the cumulative loss in “Other comprehensive income”, if any, is reclassified in “Other losses on investments” in the consolidated statement of operations.

The Company has elected to recognize available-for-sale investment transactions on the settlement date and to expense transaction costs as they are incurred.

- **Companies subject to significant influence** — Investments in which the Company can exercise significant influence are recorded using the equity method. This involves recording the Company’s share in the earnings of companies subject to significant influence from the date of acquisition. If an other-than-temporary decline in value occurs, the Company writes down the investment to its estimated net realizable value.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**f) Investments (cont'd)**

- **Investment companies** — Speculative investments in companies for the purpose of supporting their development are considered venture capital investments. These investments are held by investment companies and are recorded at their fair value, which is determined by the Company's management as follows:
 - i) Listed shares are valued based on the bid price at the close of the market. Shares with quoted values that have restricted transferability are discounted. In determining the amount of this discount, the Company takes into account the nature of the company, duration of the restriction, volatility of the security, as well as the company's market capitalization. If the market is not active, the fair value is determined using a valuation technique that is based as much as possible on observable market data. These valuation techniques include, among other things, the use of available information on recent market transactions, the analysis of discounted cash flows and the valuation models.
 - ii) Unlisted shares are valued in accordance with generally accepted valuation techniques.
- **Loans and receivables** — Loans and receivables are recognized on the consolidated balance sheet at amortized cost using the effective interest rate method. A loan is considered impaired when, in management's opinion, there is reasonable doubt as to the ultimate collectibility of a portion of the principal or interest. When loans become impaired, their carrying value is written down to estimated realizable value. The interest income is recorded in "Dividend and interest income on investments" in the consolidated statement of operations.

g) Property, plant and equipment

Property, plant and equipment are recorded at cost. Cost consists of acquisition or construction costs, including interest expenses incurred during the construction of plants. Amortization is calculated using the straight-line method based on the estimated useful lives of the following assets:

Asset	Period
Building	10 to 40 years
Machinery and equipment	3 to 25 years
Other	3 to 15 years

The acquisition cost of the forest land and the silviculture costs are capitalized. Amortization is calculated using a forest depletion rate based on the exploitable volume of lumber in the forest land.

No amortization is recorded on property, plant and equipment under construction or development or that has been removed from service for an extended period of time.

Government grants that are received for the purchase of property, plant and equipment are presented as "Deferred grant" in the consolidated balance sheet and transferred to the statement of operations using the same method and same rates as the property, plant and equipment in question.

When a legal asset retirement obligation exists, the fair value of the liability for this obligation is recognized in the period in which the obligation is incurred, assuming a reasonable estimate can be made. The resulting costs are capitalized to property, plant and equipment. The company amortizes the asset retirement cost of property, plant and equipment and recognizes accretion expense on the liability related to the estimated remaining useful life of the asset.

h) Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. This recoverability is measured by comparing the carrying amount of the assets with the estimated value of future undiscounted cash flows directly related to the use of the assets and their contingent disposal. An impairment loss is recognized if the fair value, calculated based on discounted cash flows generated during the asset's life, is below the asset's carrying amount.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

i) Disposal of long-lived assets and discontinued operations

A long-lived asset for sale is classified as held for sale in the period in which all the required criteria have been met. A long-lived asset held for sale must be measured at the lower of its carrying amount or fair value less cost to sell and should not be amortized as long as it is classified as an asset held for sale. Assets and liabilities classified as held for sale are recorded on the balance sheet as assets held for sale and as liabilities of businesses held for sale.

A long-lived asset held for disposal other than by sale, in particular by abandonment, before the end of its previously estimated useful life, is classified as an asset held for use until its disposal, and the amortization estimates must be reviewed based on the asset's shorter useful life.

The operating results of a business component that has either been disposed by sale or abandonment or that has been classified as held for sale are reported as discontinued operations if the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the business as a result of the disposal transaction and if the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction.

j) Goodwill

Goodwill is the excess of the business acquisition cost over the net value attributed to assets acquired and liabilities assumed. Goodwill is not amortized. It is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The impairment test is a comparison of the fair value of the reporting units of the Company with their carrying value. When the carrying value of a reporting unit exceeds its fair value, an impairment loss is recognized for an amount equal to the excess (which is not allocated to the other assets). The fair value of a reporting unit is calculated using valuations or discounted cash flow methods.

Goodwill included in investments in companies subject to significant influence is also not amortized. However, regarding the impairment of these assets, an impairment loss is recognized to record an investment at its estimated realizable value.

k) Operating licenses

The cost of operating licenses is capitalized and amortized over a period of 10 to 25 years as of the start-up of operations.

l) Mining properties

Mining properties include the costs pertaining to the exploration and development of mineral sites. However, these accumulated costs do not necessarily represent the current or future value of the projects for which they were incurred and exclude the administrative costs associated with the exploration and development work, which are recorded in the statement of operations.

When a decision is made to commence operations, all costs pertaining to the mining properties are transferred to property, plant and equipment. However, when a project is discontinued or it is estimated that the costs incurred cannot be recovered, all costs relating thereto are recorded in the consolidated statement of operations during the year. The costs incurred to maintain these discontinued mining properties are also recorded in the statement of operations as incurred. These costs are presented under "Amortization".

Government grants received for the exploration and development of mineral sites are presented under "Deferred grant" in the consolidated balance sheet and are recorded in operations using the same method as the costs related to the mining properties.

m) Pre-operating costs

Pre-operating costs include certain financial and other costs incurred during the start-up phase of certain plants. These costs are recorded as incurred in the consolidated statement of operations.

n) Electricity purchase agreement

The cost of the electricity purchase agreement is based on a risk-sharing formula according to the fluctuation in aluminium prices and is amortized on a straight-line basis over the term of the agreement (15 years starting in 2002).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**o) Foreign currency translation**

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the exchange rates in effect at year-end. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates prevailing on the transaction dates. Exchange gains or losses are included in the calculation of earnings for the year, except for exchange gains and losses on financial instruments classified as available-for-sale which are included in other comprehensive income.

p) Employee future benefits

The cost of pension and other retirement benefits provided in exchange for services rendered during the year is calculated using the projected benefit method prorated on years of service, and is based on management's best estimate of economic and demographic assumptions.

Past service costs arising from a plan amendment are charged to operations over the average remaining service period of active employees at the date of the plan amendment. The Company amortizes the portion of actuarial gains and losses exceeding 10% of the greater of the accrued benefit obligation or the fair value of plan assets over the average remaining service period of active employees covered by the plans.

q) Derivative financial instruments and hedges

The Company uses derivative financial instruments to reduce the risks associated with fluctuations in foreign currencies, interest rates and the prices of raw materials and finished goods. The Company's policy consists of not using derivative financial instruments for trading or speculative purposes.

With the creation of a hedge relationship, the Company documents the relationship between the hedging instrument and hedged item as well as its risk management objective and strategy for establishing the hedge. The Company also demonstrates that the relationship is effective, both at hedge inception and on an ongoing basis, so that it can continue using hedge accounting.

Derivative financial instruments that are eligible for hedge accounting are recognized at fair value on the consolidated balance sheet. Derivatives are designated as either cash flow hedge instruments or fair value hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Any gain or loss in fair value related to the ineffective portion is immediately recognized in the consolidated statement of operations. The effective portion of the hedge relationship accumulated in other comprehensive income is reclassified in the consolidated statement of operations in the period during which the hedged item has an impact on income. When a hedging instrument matures or is sold, or when a hedge no longer meets hedge accounting criteria, any accumulated gain or loss in other comprehensive income is reclassified in income during the period in which the cash flows changes of the hedged item have an impact on income.

For derivative instruments designated as fair value hedges, changes in fair value of the derivative hedging instrument recorded in income are largely offset by changes in fair value of the hedged item to the extent that the hedge relationship is effective. When the fair value hedge ceases, the carrying value of the hedged item is no longer adjusted, and cumulative adjustments to the fair value of the hedged item are recorded in income according to the method of accounting for the hedged item.

Derivative instruments that are not eligible for hedge accounting are recognized at fair value on the consolidated balance sheet, and any subsequent change in fair value is recorded in the consolidated statement of operations.

r) Guarantee

A liability is recognized to account for the initial fair value of the guarantee-related obligation that satisfies the definition of guarantee under Accounting Guideline 14 of the CICA Handbook, "Disclosure of Guarantees". The initial fair value is amortized over the duration of the guarantee. No other fair value measurement is required thereafter, unless the guarantee is considered a derivative financial instrument.

s) Income taxes

As a government-owned company, Société générale de financement du Québec and its wholly-owned subsidiaries are not subject to income taxes in Canada.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**s) Income taxes (cont'd)**

The joint ventures follow the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on the future tax consequences of temporary differences between the carrying amount of assets and liabilities and their corresponding tax basis. Future income tax assets and liabilities are measured using the tax rates expected to apply in the period during which these differences are expected to reverse.

A valuation allowance is established to reduce the carrying amount of future income tax assets when it is more likely than not that they will not be realized.

4. SUMMARY OF SEGMENT INFORMATION

The Company operates in four segments in addition to the Corporate segment. As at December 31, 2008, its investments were in the following segments: Mines, Materials, Energy, Environment; Forest Products, Technologies and Life Sciences; and Agri-Food. The Corporate segment includes the following investments: Domtar, Dark Castle, Lions Gate Entertainment, Alliance Films and Groupe Le Massif.

		<u>Revenue</u>	<u>Net earnings (loss)</u>	<u>Sectorial assets</u>	<u>Additions to property, plant and equipment</u>	<u>Business acquisitions and investments</u>
Mines, Materials, Energy, Environment						
Mines, Materials	2008	215 024	23 378	488 379	6 714	937
	2007	224 829	95 484	470 398	6 201	460
Energy, Environment	2008	487 463	(11 595)	517 153	6 933	
	2007	462 856	(16 772)	591 454	4 191	7 274
Forest Products	2008	191 791	3 505	378 571	1 461	
	2007	199 985	32 396	516 280	2 309	37 500
Technologies and Life Sciences						
Technologies	2008		10 070	46 213		2 221
	2007		5 357	56 715		12 511
Life Sciences	2008		12 777	94 475		60 458
	2007		39 690	73 822		
Agri-Food	2008	197 745	32 455	156 408	3 822	1 777
	2007	163 537	13 603	158 764	3 813	16 975
Corporate	2008		(52 954)	160 400		15 420
	2007		2 698	297 867		140 805
Segment totals	2008	1 092 023	17 636	1 841 599	18 930	80 813
	2007	1 051 207	172 456	2 165 300	16 514	215 525
Corporate activities	2008		(48 436)	134 048	819	
	2007		(39 621)	222 987	1 841	134 386
Continuing operations	2008	1 092 023	(30 800)	1 975 647	19 749	80 813
	2007	1 051 207	132 835	2 388 287	18 355	349 911
Discontinued operations (Note 7)	2008		(230 250)	20 531	1 046	
	2007		(75 349)	133 680	10 926	
Consolidated total	2008	1 092 023	(261 050)	1 996 178	20 795	80 813
	2007	1 051 207	57 486	2 521 967	29 281	349 911

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

5. FINANCIAL (EXPENSES) INCOME

	2008	2007
Interest on long-term debt	(16 178)	(19 531)
Foreign exchange gain (loss) on long-term debt	(22 464)	18 577
Foreign exchange gain (loss) on investments	10 093	(5 979)
Other financial (expenses) income	(3 329)	36
	(31 878)	(6 897)
Interest income on cash and cash equivalents and temporary investments	3 880	12 629
	(27 998)	5 732

In 2008, the Company recorded a foreign exchange gain of \$17 765 000 in “Cost of goods sold” (loss of \$16 255 000 in 2007).

6. INVENTORIES

	2008	2007
Finished goods	78 890	104 437
Work in progress	9 459	8 131
Raw materials	46 873	65 263
Supplies and spare parts	19 217	18 234
Other	3 134	2 264
	157 573	198 329

The cost of goods sold includes a write-down of \$2 876 000 (nil in 2007) on finished goods, of \$8 532 000 (nil in 2007) on raw materials, and of \$539 000 (\$392 000 in 2007) on supplies and spare parts.

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

During 2008, certain investments in the Energy, Environment and Forest Products segment were discontinued, held for sale, or sold. The operating results of these investments have been presented as discontinued operations in the consolidated statements of operations and cash flows, and the assets and liabilities “held for sale” have been presented separately in the consolidated balance sheet.

Certain financial information has been reclassified in the prior period to present these businesses as “discontinued operations” in the statement of operations, as “assets held for sale” and “liabilities of businesses held for sale” in the balance sheet and as “cash flows related to discontinued operations” in the statement of cash flows.

A write-down of \$143 985 000 for the year ended December 31, 2008 (\$40 404 000 in 2007) was recorded in discontinued operations to reduce the carrying value of these businesses to their estimated fair values less cost to sell.

The fair value of discontinued operations was estimated based on discounted cash flows or expected sales prices.

In 2009, a joint venture classified as held for sale as at December 31, 2008 announced a definitive shutdown of its operations. Despite sustained efforts, a buyer for the business could not be found. The fair value of the joint venture after the decision to shut down approximates its carrying value that was already reduced as at December 31, 2008. Shutdown costs of approximately \$10 000 000 will be recorded in 2009.

The other joint venture classified as held for sale as at December 31, 2008 is expected to be disposed of in 2009.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2008
(in thousands of dollars)

7. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (cont'd)

Significant financial information about the businesses involved in discontinued operations is as follows:

	2008	2007
Revenue	195 748	464 203
Cost of goods sold	209 607	461 497
Selling, general and administrative expenses	9 282	19 795
Amortization	10 075	14 130
Financial expenses	3 974	3 064
Other income	(205)	(3 465)
Operating loss	(36 985)	(30 818)
Asset impairment charges	(143 985)	(40 404)
Provision for restoring premises and shutdown costs	(57 792)	(6 037)
Gain on disposal	8 512	1 910
Loss from discontinued operations	<u>(230 250)</u>	<u>(75 349)</u>

Provided below are the assets held for sale and the liabilities of businesses held for sale:

	2008	2007
Current assets held for sale:		
Cash and cash equivalents	710	2 454
Accounts receivable	3 775	6 794
Inventories	9 476	10 170
Prepaid expenses	4	623
Current portion of investments		1 250
	<u>13 965</u>	<u>21 291</u>
Long-term assets held for sale:		
Property, plant and equipment	6 506	111 908
Other assets	60	481
	<u>6 566</u>	<u>112 389</u>
Current liabilities of businesses held for sale:		
Accounts payable and accrued liabilities	12 926	12 089
Current portion of long-term debt	163	559
	<u>13 089</u>	<u>12 648</u>
Long-term liabilities of businesses held for sale:		
Deferred grant	6 375	7 039
Long-term debt		163
Other long-term liabilities	1 007	820
	<u>7 382</u>	<u>8 022</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

8. NON-BANK-SPONSORED ASSET-BACKED COMMERCIAL PAPER

As at December 31, 2008, the Company held investments in the Canadian non-bank-sponsored asset-backed commercial paper ("ABCP") market for a notional amount of \$145 636 000. At the time of its acquisition by the Company, the ABCP were rated as "R-1 (High)" by rating agency DBRS Limited ("DBRS"), namely the highest rating given by DBRS for non-bank-sponsored asset-backed commercial paper and indicates that the conduit possesses, without a doubt, the required capabilities to repay its current liabilities at maturity.

The subprime mortgage crisis in the United States triggered disruptions on international markets, leading to a liquidity crisis on the Canadian ABCP market in August 2007. The ABCP restructuring initiatives undertaken since August 13, 2007 culminated in the signing of an agreement on December 24, 2008 with all stakeholders, including the governments of Canada, Québec, Ontario and Alberta. The agreement was ratified in its proposed form on January 21, 2009, and under the terms of the restructuring, the ABCP was converted to new long-term notes.

a) Restructuring plan

Pursuant to the agreement, the affected ABCP was replaced with new long-term floating-rate notes with maturities more closely tied to the maturities of the underlying assets. The agreement also provides for the consolidation of certain assets and the creation of new margin funding facilities to support any margin calls that may occur.

ABCP backed by synthetic assets was pooled into the following Master Asset Vehicles:

- Master Asset Vehicle 1 ("MAV1") is a newly formed vehicle for investors who elected to commit their pro rata share of a margin funding facility associated with their underlying assets;
- Master Asset Vehicle 2 ("MAV2") is a newly formed vehicle for investors who elected to commit less than or none of their pro rata share of a margin funding facility, in which case third parties will fund the remaining portion.

The margin funding facilities in the MAV1 and MAV2 are provided by lenders such as Canadian banks, asset providers, note holders and the governments of Canada, Québec, Ontario and Alberta. Under the restructuring plan, the Company selected the MAV2 asset vehicle, which means that it will not fund margin calls.

For ABCP backed by synthetic assets, investors received a mix of Class A-1, A-2, B and C notes with an expected maturity in December 2016. Class A-1 and Class A-2 notes received a DBRS credit rating of "A". Ineligible assets in the MAV1 and MAV2 were segregated, and the note holders holding series of ABCP secured in part by ineligible assets received tracking notes that will track the performance of the underlying individual asset.

A newly formed vehicle, which silos each ABCP series secured exclusively by traditional assets or by 100 % ineligible assets, was created under Master Asset Vehicle 3 ("MAV3"). Two main types of notes are created in the MAV3: TA tracking notes for traditional assets and IA tracking notes for ineligible assets (meaning assets outside the two preceding classes). All tracking notes are tied to the net return and maturities of their underlying assets.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2008
(in thousands of dollars)

8. NON-BANK-SPONSORED ASSET-BACKED COMMERCIAL PAPER (cont'd)
a) Restructuring plan (cont'd)

The ABCP investments held by the Company are as follows:

	<u>Notional value of the ABCP</u>
MAV2	
Synthetic assets	
Class A-1	56 068
Class A-2	33 332
Class B	6 051
Class C	2 952
	98 403
MAV3	
Traditional assets	10 409
Ineligible assets	32 928
	141 740
Other restructured ABCP	3 896
	145 636

b) Establishment of fair value

Since there is no active market for ABCP, the Company estimated the fair value of the various ABCP securities using a financial valuation model that factors in all available public information. As much as possible, assumptions are based on observable market data such as interest rates and credit quality and price. They also take characteristics of the plan into account, including the fact that the new securities will bear interest at rates that will ultimately reflect available cash flows within the vehicles, including the inherent cost of the funding facilities included in the restructuring plan.

The fair value of each ABCP security was determined by estimating the discounted value of cash flows based on default and credit loss assumptions for the actual maturities of the securities, anticipated interest rates and subordination of the restructured notes, when required. The discount rates were established based on yield curves for financial vehicles rated A and BB and high-yield bonds adjusted to reflect the illiquidity of the notes. However, for vehicles composed exclusively of traditional assets and ineligible assets, the Company used as its valuation basis the value determined by the restructured vehicles' asset manager.

Following the valuation, the Company recorded an additional impairment of \$37 784 000 (\$33 719 000 loss, net of interest in arrears of \$4 065 000 collected in 2009) related to its investment in ABCP for the year ended December 31, 2008. The total impairment recorded was \$59 007 000 (\$54 942 000 loss, net of interest in arrears collected in 2009). The decrease in fair value during the year ended December 31, 2008 is mainly due to the reduction in the rating of the notes to be received, the widening of credit spreads and the deterioration of the credit market, resulting in lower cash flow estimates. ABCP with an estimated fair value of \$86 629 000 as at December 31, 2008 remains classified as "Assets held for trading", but is presented in the consolidated balance sheet as long-term investments under "Investments".

The estimate of the fair value of the ABCP investments determined on December 31, 2008 is likely not to be indicative of the final value of the notes. Although the Company considers that the estimated fair values recorded were reasonable, changes to the main assumptions, particularly those related to the determination of discount rates, credit spreads, anticipated yields and the credit risk of the underlying assets could materially affect the fair value of the new notes and other ABCP securities in upcoming years.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

8. NON-BANK-SPONSORED ASSET-BACKED COMMERCIAL PAPER (cont'd)**b) Establishment of fair value (cont'd)**

The most significant assumptions regarding the fair value valuation model used by the Company are premised on default risks, discount rates and credit ratings of the notes. The possible effect of a change in these assumptions would change the fair value of ABCP investments estimated as at December 31, 2008 as follows:

- an upward change of 100 basis points in the financing premium related to the margin funding facilities would decrease fair value by approximately \$4 000 000;
- an upward change of 100 basis points in the discount rate would decrease fair value by approximately \$4 000 000;
- a decrease in the expected credit rating by one level (one letter) would affect the anticipated default rates and decrease fair value by approximately \$5 000 000.

The Company has sufficient credit facilities to meet its upcoming financial commitments and does not anticipate any liquidity problems or an unfavourable impact on its financial situation.

9. INVESTMENTS

	2008			2007
	Fair value	Cost or amortized cost	Equity method	Total
Available-for-sale investments:				
Listed shares				
Domtar Corporation	37 249			137 730
Cascades Inc.	25 962			63 623
Atrium Innovations Inc.	23 611			37 900
Miranda Technologies Inc.	13 564			22 913
AEterna Zentaris Inc.	4 846			13 305
Logibec Groupe Informatique Ltée.	6 615			10 357
Other	1 255			2 137
Debt securities, effective interest rate varying between 6% and 13%, maturing between 2011 to 2016	71 478			30 233
Private companies		38 440		11 666
	184 580	38 440		329 864
Companies subject to significant influence			205 349	238 581
Investment companies	31 621			52 519
Loans and receivables		2 073		7 719
Non-bank-sponsored asset-backed commercial paper (Note 8)	86 629			118 125
	302 830	40 513	205 349	746 808
Less current portion	2 433	697	8 232	61 966
	300 397	39 816	197 117	684 842

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

9. INVESTMENTS (cont'd)
Available-for-sale investments

 a) At fair value

Published bid prices in an active market are used to determine the fair value of investments available for sale. If such prices are not available, fair value is determined using valuation techniques that integrate assumptions based on data observed in external markets such as interest rates, credit spreads, exchange rates and volatility of prices and rates.

During the year, the change in fair value of listed shares recorded in other comprehensive income was composed of unrealized losses of \$176 148 000 and unrealized gains of \$590 000 for a net amount of \$175 558 000 of unrealized losses (in 2007, unrealized losses of \$105 060 000 and unrealized gains of \$62 617 000, for a net amount of \$42 443 000 of unrealized losses, were recorded).

The change in the fair value of debt securities recorded in other comprehensive income is composed of unrealized losses of \$2 170 000 and unrealized gains of \$2 772 000 for a net amount of \$602 000 of unrealized gains in 2008 (in 2007, unrealized losses of \$1 255 000 and unrealized gains of \$879 000, for a net amount of \$376 000 of unrealized losses, were recorded). Debt securities totaling \$30 693 000 are listed on an active market.

Interest income related to debt securities totalling \$6 826 000 is recorded in "Dividend and interest income on investments" in the consolidated statement of operations.

 b) At cost

The Company holds investments classified as available for sale but which are presented at cost because they are not traded on an active market, totalling \$38 440 000 (\$11 666 000 as at December 31, 2007).

Available-for-sale investments are measured periodically to determine if there is objective evidence of impairment. Unrealized losses on these investments are mainly due to market price fluctuations and changes in the discount rate and credit ratings, as well as exchange rate fluctuations. The Company has the ability and intention to hold these investments long enough to ensure full recovery of their fair value. As at December 31, 2008, the Company concluded that the unrealized losses, recorded in other comprehensive income, are temporary.

During the fiscal year ended December 31, 2008, the Company recorded other-than-temporary impairments for available-for-sale investments in the amount of \$3 658 000 (\$23 408 000 for the year ended December 31, 2007) in other losses on investments in the consolidated statement of operations.

Investment companies

The fair value of listed and unlisted investment companies was \$334 000 and \$31 287 000, respectively, as at December 31, 2008 (\$15 616 000 and \$36 903 000 as at December 31, 2007).

Loans and receivables

The carrying value of these financial instruments approximates their fair value because they have interest rates corresponding to the rates available for investments with the same conditions and maturities.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	2008		2007
	Cost	Accumulated amortization	Net amount
Mines, Materials, Energy, Environment			
Mines, Materials	383 318	95 755	287 563
Energy, Environment	526 733	186 144	340 589
Forest Products	315 169	83 425	231 744
Agri-Food	38 611	20 015	18 596
Segment totals	1 263 831	385 339	878 492
Corporate activities	11 808	9 521	2 287
	<u>1 275 639</u>	<u>394 860</u>	<u>880 779</u>
Deferred grant	82 251	20 465	61 786
			<u>65 788</u>

- a) Amortization expense for the year ended December 31, 2008 amounts to \$53 636 000, net of a \$3 554 000 reduction related to the deferred grant (\$57 922 000, net of a \$3 551 000 reduction in 2007).
- b) Property, plant and equipment with a net value of \$13 000 000 as at December 31, 2008 (\$12 000 000 as at December 31, 2007) is not amortized, as these assets are under construction or development or have been removed from service for an extended period of time.

11. OTHER ASSETS

	2008		2007
	Cost	Accumulated amortization	Net amount
Mining properties (b)	58 491		58 491
Operating licences	43 786	15 607	28 179
Electricity purchase agreement	12 192	5 284	6 908
Amount receivable for site restoration work (Note 13)	11 795		11 795
Land held for development projects	5 624		5 624
Accrued benefit asset (Note 22)	4 910		4 910
Grant receivable for exploration work	3 590		3 590
Other	5 282	2 511	2 771
	<u>145 670</u>	<u>23 402</u>	<u>122 268</u>
Less current portion	1 881		1 881
	<u>143 789</u>	<u>23 402</u>	<u>120 387</u>
			<u>112 423</u>
Deferred grant – mining properties (c)	9 894		9 894
			<u>7 664</u>

- a) Amortization expense for the year ended December 31, 2008 amounts to \$3 374 000 (\$3 289 000 in 2007).
- b) During the year, the Company recorded provisions or write-offs amounting to \$259 000, net of a \$230 000 reduction related to a deferred grant, as a reduction to the cost of mining properties (\$632 000 net of a \$87 000 reduction in 2007).
- c) During the year, a \$3 000 000 grant was received by the Company and a balance of \$709 000 from 2007 was available for mineral exploration and development activities. Of this financial assistance, \$2 460 000 was invested in mining properties (\$1 522 000 in 2007) and \$1 093 000 was applied against selling, general and administrative expenses (\$768 000 in 2007).

As at December 31, 2008, the deferred grant for mining properties stood at \$9 894 000 (\$7 664 000 at December 31, 2007).

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

12. LONG-TERM DEBT

	2008	2007
Secured (a)		
Note, 7.27% repayable in semi-annual instalments, maturing in 2017	99 672	89 359
Construction loan at a floating rate based on banker's acceptance rate, the prime rate, the U.S. base rate or LIBOR, maturing in 2012	52 255	58 380
Amount due to Investissement Québec at the CDOR rate plus 0.15%, maturing between 2022 and 2024	47 915	46 644
Loan reimbursed in 2008 (c)		36 618
Loans of an enterprise abandoned in 2008 (d)		44 157
Other	6 104	8 608
	<u>205 946</u>	<u>283 766</u>
Unsecured:		
Amount due to Investissement Québec:		
Non-interest-bearing, repayable no later than 2033	4 711	4 346
Non-interest-bearing, repayable subject to certain conditions and no later than 2011	8 060	6 997
Debenture at an interest rate of 5%, maturing in 2021	4 043	3 676
Other	12 797	16 832
	<u>29 611</u>	<u>31 851</u>
Total secured and unsecured long-term debt	235 557	315 617
Less current portion	28 985	127 485
	<u>206 572</u>	<u>188 132</u>
Transaction costs	(3 849)	(3 946)
	<u>202 723</u>	<u>184 186</u>

a) As at December 31, 2008, the Company also had secured bank loans totaling \$10 170 000 and bearing interest at the prime rate, the U.S. base rate or LIBOR plus 0.75% to 1.5%. These bank loans and certain long-term debts of the Company's enterprises are secured by various types of securities on accounts receivable, inventories and other tangible and intangible assets, and by hypothecs on all property, the carrying value of which totalled \$647 000 000 as at December 31, 2008.

b) The Company is subject to certain financial and non-financial covenants arising from conditions in the loan contracts of its subsidiaries and joint ventures. These covenants are related, among other things, to allowed capital expenditures, maintenance of a minimum of earnings before interest, depreciation and amortization (EBITDA) and pension plan solvency deficit, the declaration of dividends and the preparation of audited annual financial statements.

For the year ended December 31, 2008, the Company's subsidiaries and joint ventures met the requirements set by their lenders.

c) Pétromont fully repaid its loan in 2008 after announcing the shutdown of its operations.

d) On September 15, 2008, Temlam, a joint venture of the Company, filed a petition in bankruptcy under the *Bankruptcy and Insolvency Act*. The Company had guaranteed a portion of Temlam's loans and, as security, it repaid, during 2008, part of the amount owed by Temlam.

In making these payments, the Company assumed the role of secured lender of Temlam and recorded an amount receivable equal to the amount it expects to recover once the process to sell Temlam's assets is complete.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

12. LONG-TERM DEBT (cont'd)

e) The principal repayments required in the forthcoming years are as follows:

2009	28 985
2010	18 218
2011	29 110
2012	45 778
2013	17 478
2014 and thereafter	<u>171 095</u>
	<u>310 664</u>

f) The fair value of long-term debt is determined by discounting the expected future contractual cash flows based on the agreement at a discount rate representing the lending rate currently available to the Company for loans with similar conditions and maturities. The fair value of long-term debt stood at \$215 333 000 as at December 31, 2008 (\$315 617 000 as at December 31, 2007).

13. OTHER LONG-TERM LIABILITIES

	<u>2008</u>	<u>2007</u>
Asset retirement obligation	45 827	13 153
Accrued benefit obligations (Note 22)	26 961	25 568
Provision for shutdown costs	334	4 188
Share subscriptions	1 563	2 294
Other	<u>2 133</u>	<u>1 367</u>
	76 818	46 570
Less current portion	<u>6 227</u>	<u>8 315</u>
	<u>70 591</u>	<u>38 255</u>

Asset retirement obligations

Asset retirement obligations mainly reflect the current value of future costs needed to environmentally rehabilitate industrial sites and bring them in line with current laws and regulations. Future obligations will be settled between 2009 and 2020. To recognize the initial liability, the estimated future discounted cash flows were discounted at an average rate of 3.7%. The undiscounted value of estimated cash flows as at December 31, 2008 and 2007 was \$51 600 000 and \$13 700 000, respectively.

The required payments are as follows:

	<u>2008</u>	<u>2007</u>
2008		3 637
2009	5 147	5 151
2010	7 085	2 467
2011	8 841	902
2012	14 076	540
2013	8 445	403
2014 and thereafter	<u>8 006</u>	<u>600</u>
	<u>51 600</u>	<u>13 700</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2008
(in thousands of dollars)

13. OTHER LONG-TERM LIABILITIES (cont'd)
Asset retirement obligations (cont'd)

The change in asset retirement obligations for the year is provided below:

	2008	2007
Balance at beginning	13 153	7 879
Liabilities incurred	34 153	5 237
Liabilities settled	(2 220)	(52)
Accretion expense	180	89
Adjustments to estimated cash flows	561	
	45 827	13 153
Less current portion	5 030	3 566
Balance at end	40 797	9 587

14. SHARE CAPITAL

Authorized, par value of \$10 per share
292 500 000 common shares

	2008	2007
Issued		
217 334 018 common shares	2 173 340	2 173 340

In January 2009, the Company issued 25 000 000 common shares with a par value of \$10 per share for a total consideration of \$250 000 000. Under its incorporating act, the Company may request that the shareholder subscribe and pay for an additional 50 165 982 common shares for a total amount of \$501 659 820.

15. OTHER COMPREHENSIVE INCOME

	Unrealized gains and losses		
	Available- for-sale investments	Cash flow hedges	Translation adjustment
Balance at beginning	(42 050)	180	(116)
Other comprehensive income	(174 636)	(2 919)	(2 295)
Balance at end	(216 686)	(2 739)	(2 411)

16. CAPITAL MANAGEMENT

As an industrial and financial holding company held by the Government of Quebec, the Company's capital management objectives are as follows:

- have sufficient financial flexibility to support the enterprises in its portfolio and its other investments;
- Contribute to the development of Québec businesses through development capital investments in order to form lasting business partnerships under normal profitability conditions.

The Company manages its capital by taking the risk and liquidity characteristics of its investments into account. In order to maintain or adjust the capital structure, the Company may issue new shares, issue or repay debts and acquire or sell assets to improve its flexibility and financial performance. Capital management objectives, policies and procedures have not changed since the end of the year ended December 31, 2007.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

16. CAPITAL MANAGEMENT (cont'd)

The Company's capital is made up of the bank loans and long-term debt of its subsidiaries and joint ventures as well as its shareholder's equity.

The Company is not subject to external capital requirements, except for certain covenants in the loan contracts of its subsidiaries and joint ventures (see Note 12).

17. SUPPLEMENTARY CASH FLOW INFORMATION

a) The change in non-cash operating working capital items is as follows:

	2008	2007
(Increase) decrease in:		
Accounts receivable	(6 661)	9 979
Inventories	(11 019)	10 939
Prepaid expenses	(1 272)	642
Increase (decrease) in:		
Accounts payable and accrued liabilities	(5 401)	(3 239)
	<u>(24 353)</u>	<u>18 321</u>

b) In addition to the new property, plant and equipment and other investing activities presented in the consolidated statement of cash flows, during the year the Company acquired property, plant and equipment and other assets amounting to \$3 207 000 (\$2 570 000 in 2007), of which \$1 967 000 (\$2 249 000 in 2007) was financed through accounts payable and \$1 240 000 (\$321 000 in 2007) through other long-term liabilities.

18. BUSINESS ACQUISITIONS AND INVESTMENTS

Business acquisitions and investments are as follows:

	2008	2007
Joint ventures		5 373
Companies subject to significant influence	16 920	171 497
Investment companies	1 558	4 666
Available-for-sale investments:		
Listed shares	700	9 555
Debt securities	30 023	
Private companies	30 435	15 808
Loans and receivables	1 177	1 352
Non-bank-sponsored asset-backed commercial paper		141 660
	<u>80 813</u>	<u>349 911</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

19. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

In the normal course of business, the Company is exposed to liquidity risk, credit risk, market risk arising from exchange rate fluctuations, changes in interest rates and stock market and aluminum price fluctuations. The Company manages these risk exposures on an ongoing basis. To mitigate the effect of exchange rate, interest rate and aluminum price fluctuations on its results and financial position, the Company may use derivative financial instruments. The Company is responsible for determining acceptable risk levels and uses derivative financial instruments only for purposes of managing existing or expected risks, commitments or obligations that it expects to make based on its past experience.

a) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages this risk by taking into accounts its operational requirements and using its credit facilities. The Company establishes operational and cash flow forecasts to ensure that it has the necessary funds to meet its obligations.

The Company considers that cash flows from operating activities and available sources of financing should be sufficient to meet its obligations as they become due.

The Company has unused bank credit totalling \$430 600 000 as at December 31, 2008.

b) Credit risk

Credit risk is the risk that the Company will incur a financial loss if the counterparties to contracts fail to perform. The Company's main credit risks are tied to cash and cash equivalents, temporary investments, ABCP, accounts receivable, and debt securities and long-term loans and receivables.

i) Cash and cash equivalents

Cash and cash equivalents and temporary investments mainly consist of liquid temporary deposits and bank acceptances from Canadian chartered banks and major financial institutions with a good credit rating.

The Company regularly evaluates its counterparties' credit ratings. The maximum credit risk exposure on these financial instruments corresponds to their carrying value. ABCP amounts to \$86 629 000 net of impairment losses, which corresponds to the maximum credit risk exposure as at December 31, 2008. The Company mitigates the credit risk related to these financial instruments by complying with its temporary investment policy, which describes credit risk concentration parameters and limits.

ii) Accounts receivable

In the normal course of operations, the Company regularly assesses its clients' financial position and examines each new client's credit history.

Due to the diversity of its clients and their activity sectors, the Company believes that the credit risk concentration for accounts receivable is negligible. It establishes the allowance for doubtful accounts based on the specific credit risk and historical trends of clients. It records an impairment for accounts receivable only if recovery is not reasonably certain.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)
year ended December 31, 2008
(in thousands of dollars)

19. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont'd)**b) Credit risk (cont'd)****ii) Accounts receivable (cont'd)**

As at December 31, 2008, the maximum credit risk exposure for accounts receivable corresponded to their carrying value.

	As at December 31, 2008
Trade accounts receivable past due	
Within collection period	82 684
1 – 60 days past due	22 656
61 – 90 days past due	683
More than 90 days past due	1 882
	107 905
Allowance for doubtful accounts	(1 380)
	106 525
Other receivables	46 577
	<u>153 102</u>
Allowance for doubtful accounts	
Balance at beginning	512
Bad debt expense	983
Write-offs and recoveries	(115)
Balance at end	<u>1 380</u>

The Company does not believe that it is exposed to a significant client credit risk. As at December 31, 2008, 38% of trade accounts receivable were guaranteed by an insurer.

iii) Debt securities and loans and receivables

Debt securities and loans and receivables are regularly measured and analyzed in order to detect any impairment loss. The maximum credit risk exposure arising from debt securities and loans and receivables corresponds to their carrying value, which stood at \$71 478 000 and \$2 073 000 respectively as at December 31, 2008.

c) Market risk

Market risk is the risk that changes in market values due to fluctuations in currency translation rates, interest rates, share prices or commodity prices will change the fair value of the Company's financial instruments. Market risk management aims to limit and control market risk exposure within acceptable parameters while optimizing risk-related performance.

i) Foreign exchange risk

A portion of the Company's sales and purchases are denominated in a foreign currency, the U.S. dollar. The Company is currently not using financial derivatives to reduce its foreign exchange risk exposure. Consequently, it is exposed to risks arising from exchange rate fluctuations.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

19. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont'd)**c) Market risk (cont'd)****i) Foreign exchange risk (cont'd)**

As at December 31, 2008, the Company had the following financial instruments denominated in U.S. dollars:

	<u>U.S. dollars</u>
Financial assets	
Cash and cash equivalents	19 000
Accounts receivable	67 390
Available-for-sale debt securities	50 520
ABCP	45 255
Financial liabilities	
Accounts payable and accrued liabilities	32 570
Bank loans	7 600
Long-term debt	85 802
Other long-term liabilities	480

The foreign exchange rate sensitivity represents the foreign exchange rate exposure of the items as at the balance sheet date. As at December 31, 2008, if the Canadian dollar had risen or fallen by 1% compared to the U.S. dollar, assuming all other variables remain constant, the Company's net loss for the year ended December 31, 2008 would have been \$100 000 higher or lower, respectively, while other comprehensive income would have been \$600 000 lower or higher, respectively.

ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flows from a financial instrument will change due to movement in market interest rates.

The Company is exposed to interest rate fluctuations mainly because of its floating-rate bank loans and long-term debt. As at December 31, 2008, \$67 490 000 of its bank loans and long-term debt were exposed to interest rate fluctuations. The Company is not currently using financial derivatives to reduce its interest rate exposure. Interest rate fluctuations could also have an impact on the interest income the Company earns on cash and cash equivalents and ABCP. Temporary investments, debt securities, and loans and receivables bear interest at fixed rates. However, the debt securities and ABCP also expose the Company to the risk of change in fair value resulting from interest rate fluctuations.

As at December 31, 2008, an upward or download change of 100 basis points in the interest rate, assuming that all other variables remain constant, would reduce or increase the Company's net loss by \$1 100 000 respectively for the year ended December 31, 2008. In addition, an upward or download change of 100 basis points in the discount rate used to calculate the fair value of financial instruments, except for ABCP (see Note 8), assuming that all other variables remain constant, would reduce or increase the Company's other comprehensive income by \$2 270 000 respectively for the year ended December 31, 2008.

iii) Market risk

Market risk represents the potential loss that can occur in the portfolio of public companies due to stock market fluctuations. The Company uses various means to monitor and manage market risk, such as reviewing financial reports and analyzing changes in stock market prices of the securities held.

Unrealized gains and losses on the value of listed shares classified as available for sale are recorded in other comprehensive income until they are realized. As at December 31, 2008, the impact of a 10 % rise or fall in the stock markets would correspond respectively to an additional unrealized gain or loss of \$11 300 000 recorded in other comprehensive income.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

19. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (cont'd)**c) Market risk (cont'd)****iv) Commodity price risk**

The Company is exposed to financial risk related to aluminum price fluctuations and manages this risk in order to minimize the impact on its results and financial position. The Company has entered into forward commodity contracts to partially manage its exposure to aluminum price fluctuations.

As at December 31, 2008, the tonnage committed in these instruments, maturing in 2009, stood at 7 000 tonnes (1 750 tonnes in 2007) and the fair value of these instruments represented a loss of \$9 274 000 (\$301 000 loss in 2007).

d) Fair value

The carrying value of financial instruments maturing in the short term approximates their fair value because these items will be realized or settled in less than a year. These financial instruments include cash and cash equivalents, temporary investments, accounts receivable, bank overdrafts, bank loans, and accounts payable and accrued liabilities. The fair value and carrying value of other financial instruments as at December 31, 2008, particularly investments and long-term debt, are shown in Notes 9 and 12 respectively.

20. JOINT VENTURES

Joint ventures of the Company are accounted for using the proportionate consolidation method. The major components of the joint ventures included in these consolidated financial statements are:

	2008	2007
Consolidated statement of operations – continuing operations		
Revenue	691 103	658 519
Expenses	(822 642)	(694 754)
Net loss	(131 539)	(36 235)
Consolidated balance sheet		
Current assets	229 150	312 727
Long-term assets	1 030 698	1 101 304
Current liabilities	104 123	240 512
Long-term liabilities	206 840	199 311
Consolidated statement of cash flows – continuing operations		
Operating activities	(90 720)	(84 130)
Investing activities	(20 285)	(30 679)
Financing activities	(14 032)	7 844

21. COMMITMENTS, GUARANTEES AND CONTINGENCIES**a) Long-term leases and commitments**

The Company is committed under long-term leases to make minimum payments totalling \$54 090 000 as follows:

2009	8 240
2010	6 955
2011	6 780
2012	6 005
2013	5 670
2014 and thereafter	20 440

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

21. COMMITMENTS, GUARANTEES AND CONTINGENCIES (cont'd)

a) Long-term leases and commitments (cont'd)

In addition, the Company is committed to acquire property, plant and equipment and to purchase services and raw materials totalling \$65 800 000 over the next few years. The Company is also committed to subscriptions for long-term investments, which amounted to \$30 160 000 as at December 31, 2008, in addition to those recorded as current and long-term liabilities on the Company's balance sheet.

b) Guarantees

In the normal course of business, the Company provided significant guarantees to third parties as follows:

i) Supply contract

The Company offered a guarantee of a maximum amount of \$25 000 000 with respect to obligations under a client long-term supply contract.

ii) Financing agreements

Under the terms of its credit agreements, the Company undertook to indemnify the holders of U.S. indebtedness in the event of changes in the laws with regard to tax withholdings. These indemnification agreements will be in effect until the expiry of the loan agreements and do not contain any limits. Given the nature of these agreements, the Company cannot determine the maximum payment it may have to make to the holders. The Company did not recognize an amount on the consolidated balance sheet related to these indemnification agreements.

iii) Sales of businesses

When a business is sold in whole or in part, in addition to any potential indemnification arising from the failure to execute restrictive clauses or from non-compliance with a declaration of guarantee, the Company may agree to give a guarantee against any claim resulting from past activities. In general, the terms and conditions and amount of such indemnification are limited by agreement. As a result of the nature of these indemnification agreements, the Company cannot estimate the maximum potential amount of future payments it could be required to make to the indemnified parties. The Company did not recognize an amount on the consolidated balance sheet for these sales.

c) Contingencies

During the normal course of business, the Company is involved in various claims. Although the outcome of these outstanding claims as at December 31, 2008 cannot be predicted, the Company believes that their resolution will not have a significant negative impact on its financial position, operating results and cash flows.

22. EMPLOYEE FUTURE BENEFITS

The Company offers contributory and non-contributory defined benefit pension plans to its employees based on the years of service and average final earnings of these employees. In addition, the Company's employees receive other social benefits consisting mainly of group insurance plans; however, these plans are not funded.

The Company evaluates its accrued benefit obligations and the fair value of plan assets as at December 31 of each year for accounting purposes. The most recent actuarial valuations for the pension plan and other plans were conducted as at December 31, 2006 and the next ones are scheduled for 2009.

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

22. EMPLOYEE FUTURE BENEFITS (cont'd)

The following tables present information relating to the Company's various plans as at December 31, as established by independent actuaries:

	2008			2007
	Pension plan	Other plans	Total	Total
Accrued benefit obligation				
Balance at beginning	137 045	18 643	155 688	151 842
Current service cost	4 953	1 391	6 344	6 417
Employee contributions	1 690		1 690	1 922
Interest expense	7 271	1 000	8 271	7 946
Benefits paid	(14 529)	(489)	(15 018)	(6 700)
Actuarial (gains) losses	(26 040)	(5 797)	(31 837)	(4 410)
Settlement and curtailment	(6 132)		(6 132)	(1 329)
Past service costs		(336)	(336)	
Balance at end	104 258	14 412	118 670	155 688
Fair value of plan assets				
Balance at beginning	105 171		105 171	101 053
Adjustment to opening balance				304
Actual return on plan assets	(12 744)		(12 744)	378
Employer contributions	9 430	489	9 919	8 214
Employees' contributions	1 690		1 690	1 922
Benefits paid	(14 529)	(489)	(15 018)	(6 700)
Fair value at end	89 018		89 018	105 171
Funded status – deficit	(15 240)	(14 412)	(29 652)	(50 517)
Unamortized actuarial loss	10 146	(2 545)	7 601	29 370
Unamortized actuarial loss	(5 094)	(16 957)	(22 051)	(21 147)

The accrued benefit asset (liability) is presented as follows:

	2008			2007
	Pension plan	Other plans	Total	Total
Accrued benefit asset (Note 11)	4 910		4 910	4 421
Accrued benefit obligation (Note 13)	(10 004)	(16 957)	(26 961)	(25 568)
Accrued benefit liability	(5 094)	(16 957)	(22 051)	(21 147)

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

year ended December 31, 2008

(in thousands of dollars)

22. EMPLOYEE FUTURE BENEFITS (cont'd)

Pension plan assets are shown in percentages as follows:

	2008 %	2007 %
Shares	53	54
Bonds	45	38
Other	2	8
	<u>100</u>	<u>100</u>

The weighted average actuarial assumptions used by the Company as at December 31 are as follows:

	2008		2007	
	Pension plan %	Other plans %	Pension plan %	Other plans %
Accrued benefit obligation recorded as at December 31				
Discount rate	7.30	6.90	5.50	5.40
Rate of compensation increase	3.50	3.10	3.40	3.20
Benefit cost for the years ended December 31				
Discount rate	5.50	5.40	5.20	5.10
Long-term rate of return on assets	6.50		6.90	
Rate of compensation increase	3.40	3.20	3.40	3.20

For measurement purposes, an annual weighted average rate of increase in the cost of covered health care benefits of 8.6% was assumed for fiscal 2009 (8.9% for 2008). Based on the assumption used, this rate should decrease gradually to reach approximately 5% in 2015 and remain at that level thereafter.

The cost of defined-benefit plans charged to the consolidated statement of operations is as follows:

	2008			2007
	Pension plan	Other plans	Total	Total
Current service cost	4 953	1 391	6 344	6 417
Interest expense	7 271	1 000	8 271	7 946
Actual return on plan assets	12 744		12 744	(378)
Actuarial (gains) losses on accrued benefit obligation for the year	(26 040)	(5 797)	(31 837)	(4 410)
Past service costs		(336)	(336)	
Settlement and curtailment	(6 132)		(6 132)	
Cost components before adjustment	<u>(7 204)</u>	<u>(3 742)</u>	<u>(10 946)</u>	<u>9 575</u>
Difference between expected and actual return on assets	(19 360)		(19 360)	(5 409)
Difference between the actuarial loss recorded and the actual amount of the actuarial loss	35 541	5 717	41 258	4 517
Net cost of plans	<u>8 977</u>	<u>1 975</u>	<u>10 952</u>	<u>8 683</u>

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)**

year ended December 31, 2008

(in thousands of dollars)

23. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, a subsidiary of the Company received an amount of \$18 017 000 (\$15 526 000 in 2007) from the Government of Québec for the management of the “Programme de création d’emplois en forêt” and the “Programme d’investissements sylvicoles”. These amounts, including amounts collected from development agencies totalling \$6 975 000 in 2008 (\$6 806 000 in 2007), are presented net in the consolidated statement of operations.

In addition to related party transactions already disclosed in the financial statements, which are recognized at the exchange amount, the Company is related to all departments and special funds as well as to all organizations and corporations controlled directly or indirectly by the Government of Québec or subject to either joint control or shared significant influence by the Government of Québec. The Company’s commercial transactions with these related parties were conducted in the normal course of business. Most of these transactions are not disclosed separately in the financial statements.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year’s presentation.

MANAGEMENT’S REPORT

To the Minister of Finance

The consolidated financial statements of Société générale de financement du Québec (the Company) have been prepared by management, who is responsible for their preparation and presentation, including making estimates and important judgments. This responsibility also includes selecting appropriate accounting policies that are in accordance with Canadian generally accepted accounting principles. The financial information provided elsewhere in the annual report is consistent with the information provided in the consolidated financial statements.

To meet its obligations, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are correctly recorded in the desired time, duly approved, and allow for the preparation of reliable financial statements.

The Company recognizes that it is responsible for managing its business in compliance with the laws and regulations that govern it.

The Board of Directors oversees the manner in which management discharges its financial reporting responsibilities and approves the consolidated financial statements. It is assisted in these responsibilities by the Audit Committee, the members of which are not part of management. The Audit Committee meets with management and the Company’s independent auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l. and the Auditor General of Québec have audited the consolidated financial statements of the Company, in compliance with Canadian generally accepted auditing standards, and the auditors’s report states the nature and scope of this audit and provides the auditors’ opinion. The auditors may, without restriction, meet with the Audit Committee to discuss any aspect of the audit.

Pierre Shedleur, FCA
President and General Manager

Jean-Jacques Carrier, CA
Vice-President and
Chief Financial Officer

Montréal, Québec
March 25, 2009

SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC

AUDITOR'S REPORT

To the Minister of Finance

We have audited the consolidated balance sheet of Société générale de financement du Québec as at December 31, 2008 and the consolidated statements of operations, deficit and accumulated other comprehensive income, comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 other disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., Chapter V-5.01), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Samson Bélair/Deloitte & Touche, s.e.n.c.r.l.
Chartered Accountants auditor permit no. 19453

Renaud Lachance, CA auditor
Auditor General of Québec

Montréal, Québec
March 25, 2009

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
(R.S.Q., c. S-17.1)

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u> (Notes 3 and 4)
ASSETS		
Immovable (Notes 5 and 6)	1 492 176	1 398 991
Other capital assets (Note 7)	32 170	34 994
Balance of immovables selling price (Note 8)	200 200	211 900
Receivables linked to development (Note 9)	159 718	147 380
Work in progress (Note 6)	44 131	33 292
Long-term investment	2 300	2 300
Inventories	1 078	1 061
Accounts receivable (Note 10)	35 442	24 621
Prepaid expenses	2 416	2 319
Deferred expenses related to debt	3 183	3 694
Short-term investment	<u>42 800</u>	<u>42 800</u>
	<u>1 972 814</u>	<u>1 903 352</u>
LIABILITIES		
Long-term debt (Note 11)	1 080 276	1 081 792
Short-term borrowings (Note 12)	482 508	364 214
Accounts payable and accrued liabilities (Notes 13 and 20)	141 633	127 518
Deferred revenue	12 869	6 506
Outstanding cheques less cash on hand	<u>5 159</u>	<u>3 873</u>
	<u>1 722 445</u>	<u>1 583 903</u>
SHAREHOLDER'S EQUITY		
Capital stock (Note 15)	80 001	80 001
Gouvernement du Québec contribution	7 666	7 666
Retained earnings	<u>162 702</u>	<u>231 782</u>
	<u>250 369</u>	<u>319 449</u>
	<u>1 972 814</u>	<u>1 903 352</u>

COMMITMENTS (Note 22)

CONTINGENCIES (Note 23)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Michelle Cormier, CA, President of the Board of Directors
Sebastiano Faustini, CA, Chairman of the Auditing Committee

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	2009	2008 (Notes 3 and 4)
REVENUES		
Space rentals		
Government departments and client agencies	550 461	520 425
Other clients	8 328	12 986
Parking lots	27 877	29 753
Leasehold improvements and other services offered to clients	82 358	62 889
(Loss) gain on transfer of immovable	(1 699)	131 817
Other	318	217
	<u>667 643</u>	<u>758 087</u>
EXPENSES		
Rent and business taxes on leased property	260 437	221 039
Operating expenses for immovable (Note 16)	149 626	144 728
Leasehold improvements and other services offered to clients	80 709	61 924
Financial expenses – net (Note 17)	58 676	91 138
Real estate and business taxes on immovable	67 072	73 318
Amortization (Note 18)	46 322	38 921
General and administrative expenses – net (Note 19)	8 881	9 833
Depreciation of buildings		1 277
	<u>671 723</u>	<u>642 178</u>
(NET LOSS) NET INCOME	<u>(4 080)</u>	<u>115 909</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

STATEMENT OF RETAINED EARNINGS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPENING BALANCE ALREADY ESTABLISHED	96 795	92 599
Adjustment		
Adoption of the CICA <i>Public Sector Accounting Handbook</i> (Note 3)		
Gain on disposal of capital assets	131 772	
Long-term investment	(3 294)	(3 052)
Long-term debt and deferred costs related to debt	(426)	(383)
Interest rate exchange agreements		19 836
Adjustments (Note 4)		
Inventories	1 061	999
Provision for reorganization	3 019	3 019
Provision for relocation	2 855	2 855
ADJUSTED OPENING BALANCE	<u>231 782</u>	<u>115 873</u>
(NET LOSS) NET INCOME	<u>(4 080)</u>	<u>115 909</u>
	<u>227 702</u>	<u>231 782</u>
Dividend	<u>65 000</u>	
CLOSING BALANCE	<u><u>162 702</u></u>	<u><u>231 782</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Accounts receivable– clients	608 882	587 662
Disbursements – suppliers and staff members	(564 498)	(516 467)
Interest earned	20 416	8 252
Interest paid	<u>(80 140)</u>	<u>(100 398)</u>
Cash flows related to operating activities	<u>(15 340)</u>	<u>(20 951)</u>
INVESTMENT ACTIVITIES		
Acquisition of immovable	(130 292)	(68 331)
Receivables linked to development	37 409	42 385
Long-term investment		8 870
Acquisitions of other capital assets	(3 384)	(11 975)
Proceeds from sale of immovables	7 743	53 282
Receipt of the balance of the selling price of immovables	<u>8 000</u>	
Cash flows related to investment activities	<u>(80 524)</u>	<u>24 231</u>
FINANCING ACTIVITIES		
Dividend paid	(65 000)	
Proceeds from short-term net borrowings	118 294	46 667
Reimbursement of debt under capital lease contracts	(1 449)	(630)
Reimbursement of long-term debt	<u>(67)</u>	<u>(155)</u>
Cash flows related to financing activities	<u>51 778</u>	<u>45 882</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *	<u>(44 086)</u>	<u>49 162</u>
OPENING CASH AND CASH EQUIVALENTS	<u>38 927</u>	<u>(10 235)</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>(5 159)</u></u>	<u><u>38 927</u></u>

* Cash and cash equivalents include the short-term investment and outstanding cheques less cash on hand.

The notes are an integral part of these financial statements.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

as at March 31, 2009

(in thousands of dollars)

1. CONSTITUTION AND PURPOSE

The Société immobilière du Québec (SIQ) is a joint stock company established in September 25, 1984 by the *Act respecting the Société immobilière du Québec* (R.S.Q., c. S-17.1) to make buildings and property available to government departments and agencies, for a consideration, and provide them with construction, operating and management services.

The SIQ houses the majority of government departments and agencies, with the exception of health and education and, in this way, it is present throughout Québec.

Under section 984 of the *Québec Taxation Act* and section 149 of the *Canada Income Tax Act*, the SIQ does not pay income tax.

2. ACCOUNTING POLICIES

For the purposes of the preparation of its financial statements, the SIQ relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). Note 3 reflects the impact of this shift to public sector standards. The use of any other source of generally accepted accounting principles must be in keeping with the handbook. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

Cash and cash equivalents

It is the SIQ's policy to present investments that are easily convertible in the short term into a known amount of cash, whose value is unlikely to change significantly and outstanding cheques minus cash on hand as cash and cash equivalents.

Assets, liabilities and results linked to parking lots

The SIQ mandated a dealer to manage its parking lots. The SIQ's financial statements incorporate into each item concerned the assets, liabilities and results related to their management.

Immovables

- In operation

Immovables in operation are recorded at cost, which includes all amounts related to the acquisition, construction, capital-lease contracts and improvement of capital assets.

The amortization of buildings is calculated using the straight-line depreciation method in order to fully amortize the cost of buildings over periods ranging from 15 to 50 years.

Art works are not recorded as capital assets. Their cost is charged to expenses during the fiscal year in which they are acquired.

Contributions received for the acquisition of capital assets are recorded in deferred revenue, except for those intended for the purchase of lots, which are recorded in revenues during the year of acquisition. Deferred revenues are amortized in revenues at the same pace as the amortization of the cost of the corresponding capital assets.

- Under construction

Immovables under construction are recorded at cost which, in addition to direct costs, includes operating expenses, property taxes, interest and the portion of general and administrative expenses related thereto, less rental income. Immovables under construction are not deemed to be in operation until the project is fully completed and the premises have reached a satisfactory level of occupancy, after a reasonable time period.

When a project has been fully completed and the premises have reached a satisfying level of occupancy, after a reasonable time period, the cost of buildings under construction is transferred to buildings in operation or to major repairs.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009
(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)

Immovables (cont'd)

- *Major repairs*

Major repairs to buildings being operated are reported at cost and amortized in accordance with the straight-line method over periods varying from 5 to 50 years. The cost includes the same elements as those described above for immovables under construction.

- *Intended for sale*

Immovables in operation are presented as destined for sale if management has approved the implementation of a sale plan, at a reasonable price, and if the sale is likely within a one-year period.

An immovable destined for sale is posted at its net book value. Once an immovable is classified as destined for sale, no amortization in its regard is calculated.

Loss in value of immovables and other assets

When economic conditions indicate that a capital asset is no longer contributing to the SIQ's ability to provide goods and services or that the value of future economic benefits linked to the capital asset is less than its net book value, the cost of the capital asset is reduced to reflect the decrease in its value. The loss in value of capital assets is recorded as an expense in the income statement.

Other assets – net

- *Equipment*

Equipment used for administrative purposes is recorded at cost and amortized in accordance with the straight-line method over periods ranging from 3 to 10 years.

- *Leasehold improvements*

Leasehold improvements are recognized at cost and amortized using the straight-line method over the remaining duration of the lease, which varies from 3 to 25 years.

- *Computer system development*

The cost of developing computer systems is amortized using the straight-line method over a period of 5 years.

Work in progress

Work in progress represents construction projects and minor uncompleted development projects to be invoiced when work has been completed. Work is recorded at cost.

Long-term investment

The long-term investment is recorded at cost reduced by a permanent decline in value.

Inventories

Inventories comprise spare parts for the maintenance and repair of immovables that will be consumed in the normal course of operations during the fiscal year or coming fiscal years. The inventories are evaluated at the lesser of cost and net realizable value.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

2. ACCOUNTING POLICIES (cont'd)**Long-term debt and deferred costs related to debt**

Borrowings are recorded at the amount received at the time of issuing, adjusted by the discount or premium, to determine the amount of capital to be repaid upon maturity. This amortization is calculated according to the effective rate of each borrowing.

The flotation costs related to borrowings are deferred and amortized over the duration of each borrowing using the straight-line method. The undepreciated balance is included in deferred costs related to debt.

Revenue recording*- Space rental*

Revenue from space rental is invoiced according to foreseeable costs. These costs are divided among the government's departments and agencies that are the SIQ's clients based on the terms and conditions resulting from the regulation respecting rate-setting of the SIQ's services. Occupancy agreements are signed by the SIQ and the departments and agencies of the Gouvernement du Québec subject to doing business with the SIQ.

- Development and other services offered to clients

Revenue is posted when the goods are delivered or the services rendered.

The interest earnings from receivables linked to development are recorded according to the duration of related receivables using the interest method in effect.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the SIQ lacks sufficient information to apply the accounting procedure for defined-benefit plans.

3. CHANGE IN THE ACCOUNTING POLICIES**Adoption of the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA)**

Since April 1, 2008, at the request of the government, the SIQ has established its financial statements using the CICA *Public Sector Accounting Handbook*. It previously used the CICA handbook for the private sector. The accounting conventions affected by the change of authoritative accounting pronouncements are described below.

Gain from the disposal of capital assets

Pursuant to these authoritative accounting pronouncements, sales of immovables are deemed to be leasebacks that give rise to operating leases. The gain stemming from the sale of immovables must thus be recorded in the results of the fiscal year during which the sale occurred since these operating leases are not interrelated with the sales carried out.

The retroactive application of this accounting change has increased or reduced the following items:

	<u>2008</u>
Deferred gain on the sale of immovables – Leaseback contracts	(131 772)
Retained earnings	131 772
Gain from the disposal of capital assets	131 772

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

3. CHANGE IN THE ACCOUNTING POLICIES (cont'd)**Adoption of the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA) (cont'd)****Immovables**

As of April 1, 2008, buildings have been amortized using the straight-line depreciation method in order to fully amortize the cost of buildings over a maximum period of 50 years. Before that date, the buildings were amortized using the compound interest method at the rate of 5% over periods ranging from 15 to 50 years.

This modification applied prospectively increased the amortization of immovables as at March 31, 2009 by \$6.5 million and reduced retained earnings by the same amount.

The financial statements for the fiscal year ended March 31, 2008 have not been restated to take into account this modification since the SIQ was unable, with reasonable effort, to determine the impact of this modification in the accounting convention on previous fiscal years.

Contributions received for the acquisition of capital assets

Contributions received for the acquisition of capital assets are now recorded as deferred revenue, which is amortized at the same pace as the attendant capital asset. These contributions received were previously recorded as a reduction of the immovables.

This modification applied prospectively led to the recording of deferred revenue in the amount of \$2 million as at March 31, 2009. The amortization of deferred revenue is presented in "Other revenue."

The financial statements for the fiscal year ended March 31, 2008 have not been restated to take into account this modification since the SIQ was unable, with reasonable effort, to determine the impact of this modification in the accounting convention on previous fiscal years.

Long-term investment

The long-term investment is recorded at the cost reduced by any permanent decline in value. It was previously deemed to be a satellite corporation and recorded on an equity basis.

The retroactive application of this modification of the accounting convention has increased or reduced the following items:

	<u>2008</u>
Long-term investment	(3 294)
Retained earnings	(3 294)
Other revenues	(242)

Long-term debt and deferred costs related to debt

Flotation costs related to borrowings are deferred and amortized over the duration of each borrowing using the straight-line depreciation method. They were previously subtracted from the amounts of the borrowings at the time of issuing. Borrowings were adjusted by the amortization of the discount or the premium and the flotation costs, to determine the amount of the capital to be repaid upon maturity. This amortization was calculated according to the effective rate of each borrowing.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

3. CHANGE IN THE ACCOUNTING POLICIES (cont'd)**Long-term debt and deferred costs related to debt (cont'd)**

The retroactive application of this change in accounting policy has increased or reduced the following items:

	<u>2008</u>
Deferred expenses related to debt	3 694
Long-term debt	4 120
Retained earnings	(426)
Interest on long-term debt	(468)
Amortization of deferred costs related to debt	511

Financial instruments

Information on financial instruments has been withdrawn since the relevant standards are not applicable according to generally accepted accounting principles in the public sector.

Interest rate exchange agreements

Interest rate exchange agreements are recorded at cost. They were previously recorded at fair value.

The retroactive application of this change in accounting policy has increased or reduced the following items:

	<u>2008</u>
Interest expenses	
Reduction in the fair value of interest rate exchange agreements	6 596
Temporary borrowings – related party – entity under common control	13 240

4. ADJUSTMENTS**Inventories**

For the purposes of its maintenance and repair operations, the SIQ uses spare parts. The SIQ maintains parts inventories where there is a workforce is present.

Until now, spare parts were charged to expenses at the time of acquisition although they should have been recorded as assets. The retroactive application of this adjustment has increased or reduced the following items:

	<u>2008</u>
Inventories	1 061
Retained earnings	1 061
Operating expenses on immovables	(62)

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

4. ADJUSTMENTS (cont'd)
Provisions for reorganization and relocation

During the 2005-2006 fiscal year, the SIQ recorded a \$3.019 million provision to cover the cost of the departure incentives required in conjunction with the computer reorganization stemming from the "Modernization" program and a \$2.855 million provision to cover the cost of relocating the occupants of 200, rue Dorchester Sud in Québec City.

The recognition criteria that allow the recording of these provisions were not met. The SIQ therefore retroactively processed the requisite adjustments. Accordingly, retained earnings as at April 1, 2008 were increased by \$5.874 millions.

5. IMMOVABLES

	2009			2008
	Land	Buildings	Immovables under capital leases	Total
In operation	107 780	1 604 540	55 184	1 767 504
Under construction	2 523	75 104		77 627
Major repairs		78 883		78 883
Intended for sale	1 787	7		1 794
	<u>112 090</u>	<u>1 758 534</u>	<u>55 184</u>	<u>1 925 808</u>
Accumulated amortization		419 607	14 025	433 632
	<u>112 090</u>	<u>1 338 927</u>	<u>41 159</u>	<u>1 492 176</u>
				<u>1 398 991</u>

Acquisitions total \$142 613 million (2008: \$75 877 million), of which \$34 499 million was unpaid at March 31, 2009 (2008: \$22 178 million).

6. EXPENSES CAPITALIZED TO IMMOVABLES AND WORK IN PROGRESS

	2009	2008
During the year, the following costs were capitalized:		
Wages and general and administrative expenses (Note 19)	10 710	8 210
Interest (Note 17)	<u>1 781</u>	<u>1 847</u>
	<u>12 491</u>	<u>10 057</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

7. OTHER CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net value
Equipment	28 599	20 378	8 221
Leasehold improvements	39 813	16 085	23 728
Development of computer systems	958	737	221
	<u>69 370</u>	<u>37 200</u>	<u>32 170</u>
			<u>34 994</u>

8. BALANCE OF IMMOVABLES' SELLING PRICE

	2009	2008
Guaranteed by two first land mortgages, 6% annually, of which \$73.7 million was collected in April 2009 *	170 200	177 200
Guaranteed by a first mortgage, 5.5% annually *	<u>30 000</u>	<u>34 700</u>
	<u>200 200</u>	<u>211 900</u>

* The cashable date of total balances of the selling price of the three immovables sold in March 2008 was set on September 30, 2008. The purchasers were unable to make the payments due on September 30, 2008. During the fiscal year, the SIQ received two partial payments for two immovables, totalling \$8 million. In the case of the third immovable, the balance of the selling price of \$73.7 million was collected in April 2009. The SIQ expects to recover the balances of the selling prices during the next fiscal year. Negotiations are under way to determine new terms and conditions governing collection.

9. RECEIVABLES LINKED TO DEVELOPMENT

Accounts receivable from government departments and agencies, repayable in monthly instalments including principal and interest at rates varying from 4.28% to 7.76%, due between 2010 and 2024.

The estimated amount of cash receipts break down as:

Fiscal year

2010	20 411
2011	20 385
2012	19 556
2013	17 386
2014	13 551
2015 to 2024	<u>68 429</u>
	<u>159 718</u>

10. ACCOUNTS RECEIVABLE

	2009	2008
Related parties – jointly-controlled entities	25 526	18 600
Related parties – via management contract	6 658	4 294
Other	<u>3 258</u>	<u>1 727</u>
	<u>35 442</u>	<u>24 621</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

as at March 31, 2009

(in thousands of dollars)

11. LONG-TERM DEBTS

	2009	2008
Bonds at fixed effective rates of 10.36% to 10.78%, guaranteed by the Gouvernement du Québec, maturing between 2013 to 2015 (a)	208 148	207 973
Notes owed to the Financing Fund of the Gouvernement du Québec at effective rates of 4.55% to 6.49%, maturing between 2010 to 2039	824 242	824 469
Commitments under capital leases (b)	47 574	49 023
Borrowings at varying rates and terms	312	327
	<u>1 080 276</u>	<u>1 081 792</u>

Payments of principal, excluding capital lease contracts, are:

Fiscal year

2010	28 475
2011	19
2012	125 021
2013	310 234
2014	27
	<u>463 776</u>
2015 to 2019	373 911
2020 to 2024	15
2025 to 2029	
2030 to 2034	155 000
2035 to 2039	40 000
	<u>1 032 702</u>

(a) On March 28 of every year until 2012 inclusive, series E holders (\$59.4 million) may demand the redemption by the SIQ of the bonds at par value. The annual maximum value of bonds the SIQ would be required to redeem over the next three fiscal years is \$9 million annually.

(b) The minimum payments for capital leases for the coming fiscal years are:

Fiscal year

2010	10 987
2011	10 987
2012	10 987
2013	10 987
2014	10 987
Thereafter	167 188
Total minimum payments payable	<u>222 123</u>
Less: Theoretical interest at a rate of 10.53%	72 569
Incidental expenses	101 980
	<u>174 549</u>
	<u>47 574</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

12. SHORT-TERM BORROWINGS

The SIQ's short-term borrowings bear interest at an average rate of 0.70% and mature from April 1 to April 27, 2009.

At March 31, 2009, the SIQ contracted short-term borrowings of \$482.5 million (2008: \$364.2 million), of which \$406.6 million comes from the Gouvernement du Québec's Financing Fund (2008: \$232.4 million).

The SIQ has a \$200 million credit line with a financial institution. This credit line bears interest at the prime rate and is renewable at least once annually. The credit is to be used to finance the SIQ's overall needs. At March 31, 2008 and 2009, this credit line was unused.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>2009</u>	<u>2008</u>
Related parties – controlled entities	21 807	26 034
Other	<u>119 826</u>	<u>101 484</u>
	<u><u>141 633</u></u>	<u><u>127 518</u></u>

14. DEFERRED REVENUE

	<u>2009</u>	<u>2008</u>
Rents		
Related parties – entities under common control	6 247	5 562
Other	4 608	944
Subsidies		
Related parties – entities under common control	839	
Other	<u>1 175</u>	
	<u><u>12 869</u></u>	<u><u>6 506</u></u>

15. CAPITAL STOCK

SIQ shares are held by the Minister of Finance.

	<u>2009</u>	<u>2008</u>
Authorized:		
100 000 shares with a par value		
of \$1 000 each		
Issued and paid up:		
80 001 shares	<u><u>80 001</u></u>	<u><u>80 001</u></u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009
(in thousands of dollars)

16. OPERATING EXPENSES FOR IMMOVABLES

	2009	2008
Operating	98 556	99 304
Wages, other direct costs and general expenses posted to operations of immovables (Note 19)	35 229	33 410
Preservation	2 110	6 150
Amortization of major repairs	5 076	3 703
Relocation expenses	8 655	2 161
	<u>149 626</u>	<u>144 728</u>

17. FINANCIAL EXPENSES - NET

	2009	2008
Interest expenses:		
Long-term debt		
Related parties – controlled entity	45 073	45 085
Other	21 964	21 984
Obligations stemming from capital leases	5 060	5 199
Amortization of deferred costs related to debt		
Related parties – entity under common control	498	498
Other	13	13
Short-term borrowings		
Related parties – controlled entity	6 402	24 148
Other	2 982	5 197
	<u>81 992</u>	<u>102 124</u>
Interest income:		
Receivables linked to development	7 576	7 963
Balance of the selling price of immovables	12 864	
Other	26	93
	<u>20 466</u>	<u>8 056</u>
	<u>61 526</u>	<u>94 068</u>
Minus:		
Interest capitalized to immovables and to work in progress (Note 6)	1 781	1 847
Interest posted to results under general and administrative expenses	1 069	1 083
	<u>2 850</u>	<u>2 930</u>
	<u>58 676</u>	<u>91 138</u>

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

18. AMORTIZATION

	2009	2008
Immovables	46 173	38 561
Other capital assets	6 116	4 901
	<u>52 289</u>	<u>43 462</u>
Minus:		
Amortization charged to results under general and administrative expenses and operating expenses for immovables	5 967	4 541
	<u>46 322</u>	<u>38 921</u>

19. GENERAL AND ADMINISTRATIVE EXPENSES - NET

	2009	2008
Salaries and fringe benefits	44 074	42 141
Administrative offices expenses by SIQ	4 408	3 865
Other administrative expenses	7 878	6 923
	<u>56 360</u>	<u>52 929</u>
Minus:		
Expenses capitalized to immovables and work in progress (Note 6)	10 710	8 210
Expenses charged to operating costs of immovables (Note 16)	35 229	33 410
Expenses charged to development and other customer services	1 540	1 476
	<u>47 479</u>	<u>43 096</u>
	<u>8 881</u>	<u>9 833</u>

20. FUTURE FRINGE BENEFITS**Pension plans**

SIQ staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP), Pension Plan of Management Personnel (PPMP) or Pension Plan of Senior Civil Servants (PPSCS) administered by a Québec government agency. These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

The SIQ's contributions charged to the year-end statement totalled \$2.2 million (2008: \$1.9 million). Its liability towards these government plans is restricted to its employer contributions.

Obligations related to sick leave

The SIQ modified during the fiscal year its method of evaluating obligations in respect of sick leave credits. These obligations will from now on be evaluated according to an actuarial method that takes in account the breakdown of accrued benefits. This change in the accounting estimate reduced by \$0.8 million the value of the obligation as at March 31, 2009. The impact of this change has been recorded in the results for the fiscal year.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

20. FUTURE FRINGE BENEFITS (cont'd)**Obligations related to sick leave (cont'd)**

The long-term economic assumptions used to determine the actuarial value of the obligations are indicated below:

Growth rate of remuneration	3.25%
Capitalization rate	4.90%
Average remaining service period of active employees	11 years

Provision for sick leave and vacation time

	2009			2008
	Sick leave	Vacation time	Total	Total
Opening balance	5 399	3 810	9 209	9 126
Annual expenses	819	4 442	5 261	4 788
	6 218	8 252	14 470	236 538
Benefits paid	1 456	3 956	5 412	4 705
Closing balance	4 762	4 296	9 058	231 833

The balance of this provision is included under the item "Accounts payable and accrued liabilities".

21. RELATED PARTY TRANSACTIONS

The proceeds from developments and other services offered clients come from transactions concluded with client government departments and agencies.

In addition to the related party transactions disclosed above and in its financial statements and measured at exchange value, the SIQ is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it.

The SIQ did not do business with these related parties outside the normal course of its usual business activities. These transactions are not shown separately in the financial statements.

22. COMMITMENTS**Operating leases**

The minimum payments required under operating leases are:

<u>Fiscal year</u>	
2010	246 911
2011	214 370
2012	185 644
2013	163 730
2014	147 828
Thereafter	981 732
	<u>1 940 215</u>

Construction and fit-up projects

As at March 31, 2009, work and external honoraria related to construction and fit-up projects were subject to contractual commitments totalling \$68 million (2008: \$49 million).

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

as at March 31, 2009

(in thousands of dollars)

23. CONTINGENCIES**Disputes**

In the normal course of its business, the SIQ is exposed to various claims and lawsuits. Management feels that an appropriate provision was made for disbursement that might result from these disputes and does not foresee any unfavourable effect on the SIQ's financial position and operating results.

Environment

The SIQ's activities are subject to environmental laws and regulations adopted by government authorities. Management feels that adequate provision has been made and no other real or probable liability can be envisaged.

However, SIQ buildings built prior to 1985 are likely to contain asbestos, although the presence of asbestos in a building does not imply the obligation of immediate asbestos removal. In fact, since this material is usually encapsulated, it does not pose hazards as long as no intervention occurs that would alter the protective covering. Accordingly, maintenance and repair work is usually carried out by means of activities that do not necessarily involve asbestos removal. The safety of its workers, building occupants and the general public guide the SIQ's decisions to remove asbestos. As for major interventions that require asbestos removal, they are planned when technological change and the state of the building warrant doing so.

24. COMPARATIVE FIGURES

Certain 2008 figures have been reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC**MANAGEMENT'S REPORT**

The establishment and presentation of the financial statements of the Société immobilière du Québec and the other information appearing in this annual report are the responsibility of management. For the purposes of the preparation of its financial statements, the SIQ relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook. The information presented elsewhere in this annual report is compatible with the information in the financial statements.

Preparation of the SIQ's financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Future results may differ from these estimates.

In conjunction with its responsibilities, management of the SIQ maintains an internal control system designed to provide reasonable assurance that the enterprise's property is suitably protected, that transactions are conducted in accordance with its authorization, and that accounting records provide a reliable basis on which to establish accurate, timely financial statements.

Moreover, the internal audit branch regularly reviews internal controls. Its observations and recommendations are submitted to management, which ensures that the requisite improvements are made.

The Board of Directors fulfilled its responsibility with regard to the financial statements, mainly through the auditing committee. This committee met periodically with management and the internal auditor to ensure that the internal accounting controls were adequate and that the financial data pertaining to the SIQ was reported in its entirety. The committee examined the financial statements and recommended that the Board of Directors approve them.

The Auditor General of Québec audited the SIQ's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the auditing committee to discuss any matter related to the audit.

Richard Verreault
President and CEO

Jacques Vaillancourt, CA
Vice-President, Administration and Finance

Québec, May 27, 2009

SOCIÉTÉ IMMOBILIÈRE DU QUÉBEC

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société immobilière du Québec as at March 31, 2009 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the SIQ's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the SIQ as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by *the Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the change in the accounting policies resulting in the adoption of accounting standards for the public section, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 20, 2009

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL
(R.S.Q., c. S-17.2.0.1)

BALANCE SHEET
as at March 31

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$69 772	\$39 299
Short-term investments (Note 4)	5 750 792	5 386 941
Investments (Note 5)	9 227 256	8 852 359
Other	<u>55 722</u>	<u>55 956</u>
	<u><u>\$15 103 542</u></u>	<u><u>\$14 334 555</u></u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Accounts payable (Note 6)	\$86 342	\$73 208
Borrowing (Note 5)	<u>9 227 256</u>	<u>8 852 359</u>
	<u>9 313 598</u>	<u>8 925 567</u>
Shareholder's equity		
Share capital (Note 7)	232 948 000	232 948 000
Cumulated deficit	<u>(227 158 056)</u>	<u>(227 539 012)</u>
	<u>5 789 944</u>	<u>5 408 988</u>
	<u><u>\$15 103 542</u></u>	<u><u>\$14 334 555</u></u>

INVESTMENT COMMITMENTS (Note 11)
CONTINGENCY (Note 12)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre-B. Lafrenière, Chairman of the Board of Directors
André Côté, Director

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALSTATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND CUMULATED DEFICIT
for the year ended March 31

	2009	2008
REVENUES		
Interest income on investments	\$452 448	\$442 334
Interest income on cash on hand and short-term investments	122 448	256 828
Other revenues		56 745
	<u>122 448</u>	<u>755 907</u>
EXPENSES		
Investment expenses		
Investment management fees	13 415	13 325
(Gain) loss on exchange	(476 281)	241 242
Interest charges	452 450	442 379
	<u>(10 416)</u>	<u>696 946</u>
Operating expenses		
Professional and contractual services	18 893	33 832
Administrative service fees - Jointly-controlled related entity	136 553	134 831
Insurance	46 090	92 650
Office expenses	2 820	3 064
	<u>204 356</u>	<u>264 377</u>
NET INCOME (NET LOSS) AND COMPREHENSIVE INCOME	380 956	(205 416)
OPENING CUMULATED DEFICIT	<u>(277 539 012)</u>	<u>(277 333 596)</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(277 158 056)</u></u>	<u><u>\$(277 539 012)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

STATEMENT OF CASH FLOWS
for the year ended March 31

	2009	2008
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net income (net loss)	\$380 956	\$(205 416)
Change in assets and liabilities linked to operations:		
Other assets	234	62 545
Accounts payable	13 134	(227 922)
	<u>394 324</u>	<u>(370 793)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Acquisition of investments	(654 445)	(1 723 797)
Revenues from sale of investments	279 548	1 284 895
	<u>(374 897)</u>	<u>(438 902)</u>
CASH FLOWS RELATED TO FINANCING ACTIVITIES		
Borrowing	654 445	1 723 797
Repayment of borrowing	(279 548)	(1 284 895)
	<u>374 897</u>	<u>438 902</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	394 324	(370 793)
OPENING CASH AND CASH EQUIVALENTS	<u>5 426 240</u>	<u>5 797 033</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$5 820 564</u></u>	<u><u>\$5 426 240</u></u>
CASH AND CASH EQUIVALENTS		
Cash	\$69 772	\$39 299
Short-term investments	5 750 792	5 386 941
	<u>\$5 820 564</u>	<u>\$5 426 240</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**NOTES TO THE FINANCIAL STATEMENTS**March 31, 2009

1. CONSTITUTION AND NATURE OF ACTIVITIES

Société Innovatech du Grand Montréal is a legal person established under Chapter 33 of the 1992 statutes as a company with share capital by virtue of its governing statute, the *Act respecting Société Innovatech du Grand Montréal* (R.S.Q., c. S-17.2.0.1).

Given that the Société sold almost all of its investments in March 2005, its activities can now be summarized as passively holding investments in limited partnerships for another corporation.

Pursuant to federal and provincial income tax legislation, the Société does not pay income tax.

2. ACCOUNTING POLICIES**Use of estimates**

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions for establishing the initial fair value of assets and liabilities and at every year-end. These estimates and assumptions affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates and the effect will be reported in the financial statements for future fiscal years.

New accounting standards adopted on April 1, 2008

On April 1, 2008, the Société adopted three new generally accepted accounting principles published by the Canadian Institute of Chartered Accountants: Chapter 1535, "Capital Disclosures," Chapter 3862, "Financial Instruments – Disclosure," and Chapter 3863, "Financial Instruments – Presentation."

Chapter 1535 specifies the information to be disclosed on the entity's capital management objectives, policies and procedures, quantitative data on the items that the entity deems to be capital, the entity's compliance with requirements pertaining to capital, and the consequences of failing to comply with the requirements in question.

Chapters 3862 and 3863 contain a series of disclosure requirements and presentation rules applicable to financial instruments, which modify and enhance the disclosure requirements stipulated in Chapter 3861, "Financial Instruments – Disclosure and Presentation," and maintain unchanged the rules governing presentation.

Chapter 3862 stipulates the information to be disclosed to enable users of the financial statements to evaluate the importance of financial instruments from the standpoint of the entity's financial position and financial performance and to evaluate the nature and scope of the risks stemming from the financial instruments to which the entity is exposed and the manner in which it manages such risks.

The adoption of these new standards has not affected in any way the Société's results, since these chapters specifically cover disclosure.

Classification and evaluation of financial instruments

All financial instruments, with the exception of certain exemptions stipulated in Section 3855, must be classified based on their characteristics, management's intention or, under some circumstances, the choice of the category. When initially recognized, all the financial assets were classified as held for transaction purposes, held until maturity, available for sale or loans and accounts receivable, while financial liabilities were classified as held for transaction purposes or other financial liabilities. The new form allows entities to irrevocably designate any asset or liability, when initially recognized, as an instrument held for transaction purposes.

When initially recognized, all financial assets and liabilities are measured at their fair value. Where applicable, any discrepancy between the fair value and the cash consideration is immediately recognized under net results, unless they meet the recognition criteria for another type of the asset or liability.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉALNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**2. ACCOUNTING POLICIES (cont'd)****Classification and evaluation of financial instruments (cont'd)**

In subsequent periods, the financial assets and liabilities held for transaction purposes are measured at their fair value, and the resulting unrealized gains and losses are posted to other comprehensive income items. The financial assets held until maturity, loans and accounts receivable and other financial liabilities are measured at cost after amortization using the effective interest rate method.

Derivatives embedded in other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contracts and recorded as derivatives when the economic characteristics and risks that they present are not closely linked to those that the host contract presents. As at March 31, 2009 and 2008, the Société held neither existing contracts nor financial instruments that included incorporated derivatives that required separation.

A financial instrument's fair value generally corresponds to the consideration for which the instrument would be exchanged in a transaction between unrelated parties acting freely and under fully competitive conditions in the normal course of business. Market price is the best indication of fair value.

When it is available, the Société uses the market price (buying / selling price) to measure financial instruments' fair value. When there is not market or when the instruments are not considered liquid enough, the Société determines the fair value using measurement techniques based, as far as possible, on data observable on the market. These measurement techniques include, notably, analysis of actualized cash flows, measurement models and other measurement methods currently used on the market.

Comprehensive income

The Société did not classify any financial instrument as financial assets available for sale. Consequently, the comprehensive income does not differ from net income.

Cash and cash equivalents

Cash and cash equivalents comprise primarily cash on hand and short-term investments maturing within three months of the acquisition date. Cash and cash equivalents are held for transaction purposes and recognized at their fair value, which is considered equal to their book value, given that they mature in the short term. Gains and losses are recognized under "Interest income on cash on hand and short-term investments" in the statement of operations.

Investments

Investments are made in the form of shares in limited partnerships and loans. Investments in the form of shares in limited partnerships are classified in the category "assets held until maturity", given a derivative contract between the Société and the buyer stating that, by the end of the contract in March 2015, the buyer will buy back the Société's investments at their book value.

Loans are classified in the category "loans and accounts receivable". The corresponding interest income is presented under "Interest income on investments" in the statement of operations.

Borrowing

The borrowing is classified in the category "Other financial liabilities".

Accounts payable

Accounts payable are classified in the category "Other financial liabilities." The fair value of other liabilities is deemed to be equivalent to their book value because of their short-term maturity.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Currency conversion**

Monetary assets and liabilities in foreign currency are converted into Canadian dollars using the exchange rate in effect the date of the balance sheet. Revenues and expenses in foreign currency are converted into Canadian dollars using the average monthly exchange rate in effect that date of the transaction. Exchange gains and losses are posted to results.

3. FUTURE CHANGES TO ACCOUNTING POLICIES DUE TO ACCOUNTING STANDARDS TO BE ADOPTED BY THE SOCIÉTÉ**International Financial Reporting Standards (IFRS)**

In February 2008, the Accounting Standards Board confirmed that publicly accountable enterprises will be obliged to apply the International Financial Reporting Standards (IFRS). Accordingly, the Société must make the transition to a unique body of internationally recognized standards that will replace Canadian generally accepted accounting principles. The Société must apply these standards by April 1, 2011 at the latest.

4. SHORT-TERM INVESTMENTS

	<u>2009</u>	<u>2008</u>
Deposit certificates, 0.20% and 0.53%, maturing in April 2009	\$5 659 668	\$5 297 445
T-bill fund	<u>91 124</u>	<u>89 496</u>
	<u>\$5 750 792</u>	<u>\$5 386 941</u>

5. INVESTMENT

	<u>2009</u>	<u>2008</u>
Investments in limited partnerships	<u>\$9 227 256</u>	<u>\$8 852 359</u>

In March 2005, Société Innovatech du Grand Montréal sold almost all of its long-term investments. Given restrictions on the transfer of some of its investments, seven equity interests in limited partnerships could not be sold to the buyer. The Société holds other investments whose book value and fair value are zero.

In order to transfer the fair value and currency risk of investments in limited partnerships to the buyer, a derivative contract was signed with the latter. Among others, this contract foresees the buyer paying an amount corresponding to fixed interest of 5% on investments, payable on a quarterly basis. Also, when the contract expires in March 2015, it provides for the buyer buying back the Société's investments at book value.

Further, the Société contracted a borrowing from the buyer bearing interest at an annual rate of 5%, payable on a quarterly basis. Additional amounts will be loaned by the buyer if the Société must invest amounts in the form of capital contributions in the limited partnerships kept. The borrowing will be repaid from the amounts received by the Société for distributions from the limited partnerships. The borrowing is repayable no later than March 2015.

Given the contract between the Société and the buyer, although the fair value of the investments and the borrowing are \$5 535 958, no depreciation is recognized, given that their settlement will occur at book value upon maturity. The buyer, not the Société, is the beneficiary of the added value or decline in value. The fair value of shares in limited partnerships of \$5 535 958 is based on the audited financial statements of these corporations on the date of their year end and adjusted in light of the corporations' major transactions during the time lag, as the case may be, which, in their capacity as investment companies, are evaluated at fair value.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
6. ACCOUNTS PAYABLE

	<u>2009</u>	<u>2008</u>
Accounts payable ¹	\$39 360	\$40 511
Amount payable	<u>46 982</u>	<u>32 697</u>
	<u>\$86 342</u>	<u>\$73 208</u>

(1) Including \$36 698 owing to a related entity that was jointly controlled at March 31, 2009 (\$35 979 as at March 31, 2008).

7. SHARE CAPITAL

The principal purpose of the *Act respecting Société Innovatech du Grand Montréal* is to enable the Société to continue its existence and to be endowed with authorized capital of \$350 000 000.

	<u>2009</u>	<u>2008</u>
Authorized:		
3 500 000 common shares with a par value of \$100 each		
Issued and paid:		
2 329 480 common shares	<u>\$232 948 000</u>	<u>\$232 948 000</u>

The share capital is issued to the Minister of Finance and is therefore the responsibility of the Gouvernement du Québec.

8. CAPITAL DISCLOSURES

For the purposes of capital management, the Société's capital comprises the shareholders' equity. As at March 31, 2009, the balance of the Société's equity stood at \$5 789 944 (balance of \$5 408 988 as at March 31, 2008).

9. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS

Management has adopted control and management policies and procedures that ensure the management of the risk inherent in financial instruments and minimize its potential impact.

Credit risk

The credit risk is associated mainly with losses the Société might suffer or costs it might have to incur due to a third party's inability to honour its financial commitments. In this regard, a derivative contract was concluded as disclosed in Note 5.

The book value of financial assets represents the Société's maximum exposure to credit risk.

The Société holds loans with zero fair value following the deterioration of the economic position of the entities concerned.

Market risk

These risks include the interest rate risk, the currency risk and the risk linked to stock markets. The Société's activities are significantly influenced by interest rate risk and stock market risk.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

9. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS (cont'd)**Currency risk**

The Société has invested certain amounts in US dollars. Consequently, certain assets are exposed to exchange rate fluctuations. As at March 31, 2009, cash on hand and temporary investments denominated in US dollars and converted into Canadian dollars stood at \$2 644 929 (\$2 105 416 as at March 31, 2008). The Société does not use any instrument to manage exchange rate fluctuation risks in respect of these items. The derivative contract makes provision for dispositions in order to manage currency exposure in investments in limited partnerships between the Société and the purchaser as indicated in Note 5.

In view of the aforementioned data as at March 31, 2009, and assuming that all of the other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar in relation to the US dollar would result in a decrease or an increase in income on the order of \$132 246 in respect of currency exposure based on the US dollar.

Liquidity risk

The liquidity risk is associated with the Société's ability to gather the funds necessary to honour its financial commitments. The derivative contract provides for managing liquidities between the Société and the buyer, as mentioned in Note 5.

Accounts payable are payable within 30 days. The Société is of the opinion that it holds sufficient investments that are readily convertible to cash to ensure that it has the funds necessary to meet its current and long-term financial needs at reasonable cost, as the case may.

10. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is related to all government departments and special funds, as well as to all agencies and companies that the Government of Québec controls directly or indirectly or over which it exercises joint control or significant influence. The Société does not do business with these related parties other than those in the normal course of operations and according to standard commercial terms. These transactions are not disclosed separately in the financial statements.

11. INVESTMENT COMMITMENTS

The Société's commitments to limited partnerships were \$1 333 771 at March 31, 2009 (\$1 717 050 at March 31, 2008) which are taken over by the buyer under a derivative contract.

12. CONTINGENCY

A lawsuit has been instituted against the Société and the other partners involved in an investment for a maximum of \$1 886 343. The suit for damages instituted by the opposing party involves the parties jointly and severally. At the date the financial statements were prepared, the Société was unable to evaluate the outcome of this lawsuit or the resulting financial impacts, if applicable.

SOCIÉTÉ INNOVATECH DU GRAND MONTRÉAL**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of Société Innovatech du Grand Montréal as at March 31, 2009 and the statements of operations, comprehensive income and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the changes made to accounting policies for financial instruments, as disclosed in Note 2, these principles have been applied on a basis consistent with that of the preceding year.

for the Auditor General of Québec,
France Alain, CA auditor
Senior Director

Québec, July 17, 2009

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
(R.S.Q. c. S-17.2.2)

STATEMENT OF OPERATIONS AND CUMULATED DEFICIT
for the year ended March 31, 2009

	2009	2008
REVENUES		
Interest income	\$20 041	\$134 215
Investment and management fees		9 923
Gains on sale of investments	11 621	366 573
Changes in unrealized gain in value	34 214	579 122
Interest on bank balance and short-term investment	220 701	380 294
	<u>286 577</u>	<u>1 470 127</u>
EXPENSES RELATED TO INVESTMENTS		
Losses on sale of investments	42 214	290 243
Changes in unrealized decline in value	67 500	526 646
Unrealized net exchange losses		26 359
	<u>109 714</u>	<u>843 248</u>
INCOME RELATED TO INVESTMENTS	<u>176 863</u>	<u>626 879</u>
OPERATING EXPENSES:		
Salaries and fringe benefits	325 442	289 924
Professional and contractual services	73 487	79 784
Rent and insurance	76 595	79 510
Travelling and business development	1 236	6 972
Office expenses	3 262	10 512
Advertising and promotion	100	101
Telephone and messenger service	2 476	6 089
Training	3 238	
Bank charges	1 151	2 449
Loss (gain) on sale of capital assets	2 444	(3 546)
Doubtful debts		7 260
Amortization of capital assets	1 894	8 269
	<u>491 325</u>	<u>487 324</u>
(NET LOSS) NET INCOME	(314 462)	139 555
OPENING CUMULATED DEFICIT	<u>(41 480 869)</u>	<u>(41 620 424)</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(41 795 331)</u></u>	<u><u>\$(41 480 869)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$2 964 493	\$11 010 261
Short-term investment (Note 4)	510 360	424 610
Accounts receivable	2 830	38 996
Revenue from sale receivable, interest-free		1 843 670
Amount receivable from a corporation under common control, interest-free, no repayment terms	1 178 695	
Prepaid expenses	188	9 578
Investments and loans maturing during the next fiscal year (Note 5)	139 750	349 301
	<u>4 796 316</u>	<u>13 676 416</u>
Investments and loans (Note 5)	8 931 908	382 561
Capital assets (Note 6)		8 761
	<u>\$13 728 224</u>	<u>\$14 067 738</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$22 755</u>	<u>\$47 807</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	55 500 800	55 500 800
Cumulated deficit	<u>(41 795 331)</u>	<u>(41 480 869)</u>
	<u>13 705 469</u>	<u>14 019 931</u>
	<u>\$13 728 224</u>	<u>\$14 067 738</u>

CONTINGENCIES (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre B. Lafrenière, Chairman
André Côté, Member of the Board of Directors

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECSTATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008
OPERATING ACTIVITIES		
(Net loss) Net income	\$(314 462)	\$139 555
Adjustments for:		
Amortization of capital assets	1 894	8 269
Loss (gain) on sale of capital assets	2 444	(3 546)
Realized gains on sale of investments	(11 621)	(366 573)
Realized losses on sale of investments	42 214	290 243
Capitalized interest on investments		(123 577)
Change in unrealized added values	(34 214)	(579 122)
Change in unrealized value losses	67 500	526 646
Unrealized net exchange losses		26 359
	(246 245)	(81 746)
Net change in non-cash items in the working capital (Note 9)	685 479	(1 149 790)
Cash flows related to operations	439 234	(1 231 536)
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(9 828 357)	(930 000)
Revenue from the disposal of capital assets	4 423	3 546
Recovery of loans and debentures	133 163	212 807
Revenue from sale of investments	112 824	9 347 291
Withdrawal of capital from the limited partnership	1 178 695	
Cash flows related to investment activities	(8 399 252)	8 633 644
DECREASE (INCREASE) IN CASH AND CASH EQUIVALENTS	(7 960 018)	7 402 108
OPENING CASH AND CASH EQUIVALENTS	11 434 871	4 032 763
CLOSING CASH AND CASH EQUIVALENTS	<u>\$3 474 853</u>	<u>\$11 434 871</u>
Cash and cash equivalents comprise:		
Cash on hand	\$2 964 493	\$11 010 261
Short-term investment	510 360	424 610
	<u>\$3 474 853</u>	<u>\$11 434 871</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Société Innovatech du sud du Québec is a legal person established in the public interest under Chapter 19 of the 1995 statutes and continued as a corporation through its governing statute, the *Act respecting Société Innovatech du sud du Québec* (R.S.Q., c. S-17.2.2), to promote and support initiatives likely to increase the capacity for technical innovation on the territory described in Schedule A of its incorporating Act, namely, all territories of the municipal agencies comprising the south-western portion of the province of Québec, and, thereby, to enhance Québec's competitiveness and economic growth.

The Société defines itself as a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

The Société does not pay income tax under federal or provincial income tax legislation.

2. MAIN ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use accounting estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main items for which management has established estimates and formulated assumptions are the provision for doubtful debts, the service life of capital assets and the measurement of investments not listed on the Stock Exchange. Real results may differ from these estimates.

Currency conversion

The Société uses the temporal method to convert its accounts into currency.

Monetary assets and liabilities are converted at the exchange rate the date of the balance sheet. Other assets and liabilities are converted at the original rate. The account balance shown in the statement of operations is converted at the fiscal year's average rate. Exchange gains and losses posted to the fiscal year's results.

Short-term investments

Short-term investments are posted at fair value.

Financial instruments (with the exception of investments and loans)

Initial measurement

Financial instruments are reported at fair value the date of the transaction. The transaction costs are added to the initial fair value, with the exception of those related to financial instruments held for transaction purposes, which are reported under net results.

Fair value

The fair value is the amount of the consideration that the parties having jurisdiction agree on acting freely and under fully competitive conditions. These values are determined using measurement methods like actualization of future cash flows at current interest rates and their stock market rates. Some measurements are made by the Société using commonly employed measurement methods.

Assets and liabilities held for transaction purposes

Financial instruments classified as assets or liabilities held for transaction purposes are recognized at fair value the date of the balance sheet and any change in fair value is recorded under results for the period in which these changes occur.

The Société classified its cash on hand as held for transaction purposes and irrevocably designated the short-term investment.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)**Financial instruments (with the exception of investments and loans) (cont'd)***Loans and accounts receivable and other financial liabilities*

Financial instruments classified as loans and accounts receivable and other financial liabilities are subsequently recognized at cost after amortization using the effective interest rate method. The interest income or charges are included in results.

The Société has classified accounts receivable in the category “loans and accounts receivable”, accounts receivable and an amount receivable from a corporation under common control. Accounts payable and accrued liabilities have been classified as “other liabilities”.

Comprehensive income

The Société has not classified any financial instrument as an asset available for sale. Consequently, comprehensive income does not differ from net loss.

Investments and loans

The Société is an investment company within the meaning of the Canadian Institute of Chartered Accounts Handbook's Accounting Guideline 18 (AcG-18) – Investment Companies. As specified in paragraph 4 of AcG-18, only the recognition, purchase or sales with a standardized delivery deadline and fair value measurement apply to investments held by an investment corporation which are recognized at fair value in keeping with this accounting guideline.

Investments are recorded at fair value, i.e. the estimated exchange value agreed on by competent parties acting freely under fully competitive conditions. The fair value is established as follows:

a) **Unlisted shares**

Unlisted shares comprise shares, debentures, and loans. They are evaluated using techniques that are recognized on the market, including primarily reference to an offer to purchase or transactions with an unrelated third party and capitalization of cash flows.

Debentures and loans, including the corresponding capitalized and accrued interest, are presented at the estimated capitalizable value. If the amounts and moment of cash flow capitalization cannot be reasonably and reliably estimated, the estimated capitalization value is based on observable market prices for these loans or management's judgement.

When a loan or debenture is considered doubtful, the interest income related to them, in keeping with the original contract provisions, are no longer reported.

b) **Listed shares**

Listed shares comprise shares. The fair value corresponds to the average closing price over a one-month period or the closing rate the date of the evaluation, whichever is less.

c) **Shares in the limited partnership**

The fair value of shares in the limited partnership is based on the audited financial statements of this corporation as at December 31 and adjusted in light of the corporation's major transactions during the lag period which, in its capacity as an investment company, is evaluated at fair value.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)
Capital assets

Capital assets are recorded at cost and are amortized in light of their respective anticipated life-span according to the methods and at the rates indicated below:

	Method	Rate
Furniture and equipment	Straight-line	20%
Computer equipment and material	Straight-line	20% and 33%

The Société regularly examines the book value of its capital assets, comparing it with unrealized future cash flows expected to be generated by them. Any surplus book value over fair value is posted to results for the period in which the depreciation was determined.

Revenue reporting
Investment income

Investment operations are posted on the date of the operation and the resulting revenues are posted on an accrual basis. Interest income is recorded according to the number of days the investment is held during the fiscal year. Gains and losses on the sale of investments are established using the average cost method.

Other revenue

Other revenue is recorded when there is convincing evidence of an agreement, services have been rendered, the price is, or can be, determined and recovery is reasonably certain.

Cash flows

It is the current Société's policy to present bank balances minus outstanding cheques and short-term investment convertible in the near future as a known cash amount whose value is unlikely to change as cash and cash equivalents.

3. CHANGE IN ACCOUNTING POLICIES

On April 1, 2008, the Société adopted the new recommendations of the Canadian Institute of Chartered Accountants concerning the following new chapters: 1535, "Capital Disclosures," 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation." Chapter 1535 seeks to inform users about the entity's capital and the manner in which it is managed. Chapters 3862 and 3863 seek to inform users to enable them to evaluate the importance of financial instruments from the standpoint of the entity's financial position and financial performance and to evaluate the nature and scope of the risks stemming from the financial instruments to which the entity is exposed and the manner in which it manages such risks.

The adoption of these new standards has not affected in any way the Société's results, since these chapters specifically cover disclosure and the presentation of the financial statements.

4. SHORT-TERM INVESTMENT

The short-term investment represents liquid assets invested in a common cash flow management fund, a low-risk liquid investment vehicle. The Société holds Monetary Market Fund units whose yield rate is variable.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. INVESTMENTS AND LOANS**

	2009	2008
Common shares		
Private corporations		\$281 357
Public corporations		101 204
Limited partnership		
Desjardins – Innovatech s.e.c.	\$8 855 519	
Non-convertible securities		
Debentures and loans (Note 12)	216 139	349 301
	9 071 658	731 862
Portion maturing during the next fiscal year	139 750	349 301
	<u>\$8 931 908</u>	<u>\$382 561</u>

On October 9, 2008, the Société acquired 11 425 793 shares in a limited partnership at a price equivalent to the fair value of the assets transferred in exchange, i.e. \$10 000 000. The assets transferred correspond to the shares of a private corporation, contracts and \$9 828 357 in cash.

6. CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net value
Furniture and equipment	\$1 155	\$1 155	\$1 884
Computer equipment and material	11 336	11 336	6 877
	<u>\$12 491</u>	<u>\$12 491</u>	<u>\$8 761</u>

7. CAPITAL STOCK

The *Act respecting the Société Innovatech du Sud du Québec* is designed to allow the Société to survive and be endowed with an authorized partnership fund of \$100 000 000.

Shares in the Société's partnership fund belong to the public domain and are assigned to the Minister of Finance.

Authorized

1 000 000 common shares with a par value of \$100 each

	2009	2008
Issued and paid		
555 008 common shares	<u>\$55 500 800</u>	<u>\$55 500 800</u>

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
8. CAPITAL DISCLOSURES

The Société defines its capital as equity.

Pursuant to the *Act respecting the Société Innovatech du sud du Québec*, the amount of the dividends paid, as the case may be, is set by the Gouvernement du Québec and not by the directors. The Société is not subject to any other requirement in respect of capital by an external source.

The Société manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

9. NET CHANGE IN NON-CASH ITEMS IN THE WORKING CAPITAL

	2009	2008
Amount receivable from a corporation under common control	\$(1 178 695)	
Proceeds of disposition receivable	1 843 670	\$(1 120 160)
Accounts receivable	36 166	(2 967)
Prepaid expenses	9 390	1 070
Accounts payable and accrued liabilities	(25 052)	(27 733)
	<u>\$685 479</u>	<u>\$(1 149 790)</u>

10. RELATED PARTY TRANSACTIONS

The Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The issuing of capital stock, already disclosed in the financial statements, was recorded at exchange value. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions, which are recorded at exchange value. These transactions are not shown separately in the financial statements.

11. CONTINGENCIES

In a transaction involving the sale of an investment, the Société vouched for the buyer until June 2011 against potential claims for a maximum amount of \$250 000. The probability that the Société will have to assume this liability are undetermined since potential proceedings may be instituted against this company by clients, sub-contractors or any other person related to it. If disbursements are necessary, they are posted to the fiscal year in which the commitment is made.

12. FINANCIAL INSTRUMENTS

Management has adopted control and management policies and procedures that enable it to manage the risks inherent in financial instruments and to minimize their potential impact.

Credit risk

Exposure to credit risk is limited to the book value of financial assets. The Société is exposed to the economic conditions affecting the sectors in which it engages in its activities. As at March 31, 2009, the investments can be broken down as follows:

	2009	2008
Biotechnologies		58%
Information technologies		3%
Industrial technologies	100%	39%

The Société holds investments with zero fair value following the deterioration of the economic position of the entities concerned.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

12. FINANCIAL INSTRUMENTS (cont'd)**Interest-rate risk**

The Société is not exposed to cash flow risks related to interest rates given that the loan bears interest at the fixed rate of 12%. However, it is exposed to market risk related to the interest rate, which is reflected in the balance sheet since this investment is recorded at fair value.

Liquidity risk

Expenses due and accrued are payable within 30 days. The Société is of the opinion that it holds sufficient investments that are readily convertible to cash to ensure that it has the funds necessary to meet its current and long-term financial needs at reasonable cost, as the case may.

Fair value

The book value of short-term assets and liabilities represents a reasonable estimate of their fair value because of their close maturity date.

The interest rate used to capitalize future cash flows, as the case may be, is based on the risk-free interest rate on the date of the balance sheet, adjusted by a credit premium. The rate used for the loan with a fair value of \$216 139 is 12%.

13. COMPARATIVE FIGURES

Some 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ INNOVATECH DU SUD DU QUÉBEC**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech du sud du Québec as at March 31, 2009 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by *the Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, September 14, 2009

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES
(R.S.Q., c. S-17.4)

STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND CUMULATED DEFICIT
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Investment income	\$497 675	\$1 168 689
Interest on term deposits and short-term investments	475 259	362 536
Management fees		43 500
Gain on sale of investments	47 564	840 590
Change in unrealized gain in value	<u>1 551 143</u>	<u>(2 168 592)</u>
	<u>2 571 641</u>	<u>246 723</u>
EXPENSES		
Operating expenses:		
Salaries and fringe benefits	369 410	505 227
Professional and contractual services	75 886	115 804
Rent	98 488	89 715
Advertising and promotion	828	19 002
Travelling and business development	23 209	37 792
Office expenses	57 917	72 759
Communications	11 532	15 390
Amortization of capital assets	<u>21 071</u>	<u>24 132</u>
	<u>658 341</u>	<u>879 821</u>
Other expenses:		
Doubtful debts	89 608	50 384
Loss on sale of investments	5 056 277	14 546 861
Net (gain) /loss on exchange	(427 842)	272 076
Provision for loss on ABCP investments (Note 5)	2 194 687	1 316 000
Change in unrealized loss in value	<u>(1 419 829)</u>	<u>(1 577 267)</u>
	<u>5 492 901</u>	<u>14 608 054</u>
	<u>6 151 242</u>	<u>15 487 875</u>
NET LOSS AND COMPREHENSIVE INCOME	<u>(3 579 601)</u>	<u>(15 241 152)</u>
OPENING CUMULATED DEFICIT	<u>(86 175 385)</u>	<u>(70 934 233)</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(89 754 986)</u></u>	<u><u>\$(86 175 385)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

BALANCE SHEET
as at March 31, 2009

	2009	2008
ASSETS		
Current assets		
Cash on hand	\$8 627 086	\$7 025 334
Accounts receivable (Note 4)	52 501	134 298
Prepaid expenses	27 611	21 710
	<u>8 707 198</u>	<u>7 181 342</u>
Investments – commercial paper (ABCP) (Note 5)	4 279 094	6 857 430
Investments (Notes 6 and 14)	24 067 533	26 606 148
Capital assets (Note 7)	<u>24 905</u>	<u>45 976</u>
	<u><u>\$37 078 730</u></u>	<u><u>\$40 690 896</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$50 620</u>	<u>\$83 185</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 8 and 9)	126 783 096	126 783 096
Cumulated deficit	<u>(89 754 986)</u>	<u>(86 175 385)</u>
	<u>37 028 110</u>	<u>40 607 711</u>
	<u><u>\$37 078 730</u></u>	<u><u>\$40 690 896</u></u>
COMMITMENTS (Note 12)		
CONTINGENCY (Note 13)		

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,

Fernand Labrie, Chair of the Board of Directors
Chantal Brunet, Acting President and CEO

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**STATEMENT OF CASH FLOWS**
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net loss	\$(3 579 601)	\$(15 241 152)
Items not affecting cash flows:		
Capital interest on investments	(89 959)	(346 650)
Realized gains on sale of investments	(47 564)	(840 590)
Change in realized added value	(1 551 143)	2 168 592
Amortization of capital assets	21 071	24 132
Losses on sale of investments	5 056 277	14 546 861
Net (gain) /loss on exchange	(233 218)	
Provision for loss on ABCP investments (Note 5)	2 194 687	1 316 000
Change in unrealized decline in value	(1 419 829)	(1 577 267)
	<u>350 721</u>	<u>49 926</u>
Change in non-cash items related to operations (note 10)	<u>43 331</u>	<u>538 648</u>
Cash flows related to operating activities	<u>394 052</u>	<u>588 574</u>
INVESTMENT ACTIVITIES		
Acquisition of investments – commercial paper (ABCP)		(8 173 430)
Disposition of ABCP investment	616 867	
Acquisition of investments	(960 022)	(4 284 852)
Revenue from sale of shares, repayable contributions and advances	1 182 745	1 284 115
Revenue from sale of shares	368 110	3 167 703
Acquisition of capital assets		(9 500)
	<u>1 207 700</u>	<u>(8 015 964)</u>
Cash flows related to investment activities	<u>1 207 700</u>	<u>(8 015 964)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1 601 752	(7 427 390)
OPENING CASH AND CASH EQUIVALENTS	<u>7 025 334</u>	<u>14 452 724</u>
CLOSING CASH AND CASH EQUIVALENTS¹	<u>\$8 627 086</u>	<u>\$7 025 334</u>
 1 Comprising:		
Cash on hand	<u>\$8 627 086</u>	<u>\$7 025 334</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Société Innovatech Québec et Chaudière-Appalaches is a legal person established in the public interest under Chapter 80 of the 1993 statutes and continued as a corporation through its governing statute, the *Act respecting Société Innovatech Québec et Chaudière-Appalaches* (R.S.Q., c. S-17.4), to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act, thereby enhancing Québec's competitiveness and economic growth.

The Société defines itself as an investment corporation, within the meaning of Accounting Guideline 18 (AcG-18) – Investment Companies of the Canadian Institute of Chartered Accountants' Handbook. Described as a venture capital agency, the Société makes investment commitments in the form of leveraged investments in companies with strong growth potential.

The Société does not pay federal or provincial income tax.

In the wake of the 2004-2005 Budget Speech delivered by the Québec Minister of Finance on March 30, 2004, the Minister of Economic and Regional Development and Research indicated, on April 6, 2004, that the Société would become a limited partnership with mixed public and private funding. To date, no official announcement has been made concerning this change.

2. ACCOUNTING POLICIES

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main estimates were based on measurement of the investments' fair value. Different circumstances or economic contexts might change management's decisions. Real results may differ from these estimates.

Currency conversion

Monetary assets and liabilities are converted at the exchange rate the date of the balance sheet. Other assets and liabilities are converted at the original rate. Revenue in foreign currency is converted at the exchange rate in effect when the transaction occurred. Exchange gains or losses are included in the results.

Revenue reporting

Investment operations are recorded on the date of the operation and the resulting revenue is reported on an accrual basis. Interest income is reported according to the number of days the investment is held during the fiscal year. Gains or losses on the sale of investments are reported when realized, based on the cost.

Financial instruments

i) Financial instruments are recognized at fair value the date of the transaction.

ii) Classification and subsequent measurement:

Cash on hand is classified as "Assets held for transaction purposes" and is measured at fair value. Changes in fair value and transaction costs are recognized under results, where applicable.

Accounts receivable are classified in the category "Loans and accounts receivable" and are measured at cost after amortization using the effective interest rate method. Interest income and the related transaction costs are recognized under results.

Accounts payable and accrued liabilities are classified under "Other financial liabilities" and measured at cost after amortization using the effective interest rate method. Transaction costs are recognized under results.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHESNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**Financial instruments (cont'd)**

iii) Fair value of financial instruments:

The fair value is the estimated value on which parties acting freely under fully competitive conditions could agree on to exchange instruments.

The fair value of short-term financial instruments equals their book value, given that they mature in the near future.

iv) The Société did not classify any financial instrument as an asset available for sale. Consequently, comprehensive income does not differ from net loss.

Cash and cash equivalents

It is the Société's policy to present bank balances and short-term investments that are easily convertible in the short term into a known amount of cash whose value is unlikely to change significantly under cash and cash equivalents. Short-term investments are recorded at fair value.

Investments

Under AcG-18, all investments are measured at fair value.

a) Equity securities

The fair value of the equity securities listed on a recognized stock exchange is determined by the bid price of the stock exchange on the date of the balance sheet. When the securities are not listed on a recognized stock exchange, or when under exceptional circumstances the stock market price does not adequately reflect the fair value of the securities, the latter are evaluated according to the appropriate evaluation methods such as reference to arm's length transactions or bids, the analysis of ratios focusing on comparable enterprises or the capitalization of free monetary flows, based on observations and reasonable assumptions, bearing in mind all of the factors that can significantly affect fair value. Investments in investment funds are evaluated according to the fair value established by their respective general partner.

b) Debt obligations

The fair value of loans and advances is determined by the capitalization of future monetary flows at a rate that reflects each security's current level of risk. The fair value thus determined is based on reasonable assumptions on anticipated monetary flows and market interest rates for agreements that have similar conditions and maturity dates.

Most of the securities held cannot be readily negotiated due to the absence of a market. The fair value established thus centres largely on the use of assumptions and cannot be interpreted as the realizable value that would give rise to the immediate disposition of the securities.

Capital assets

Capital assets are recorded at acquisition cost and amortized over their service life using the straight-line method as follows:

Leasehold improvements	4 years
Office equipment	4 years
Data processing equipment	3 years
Equipment	6 years

The Société regularly examines the book value of its capital assets by comparing it with the unrealized future cash flows these assets generate. Any surplus book value over this value is posted to results for the period in which the depreciation was determined. At March 31, 2008 and 2009, no decline in value had been posted.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

3. NEW ACCOUNTING POLICIES ADOPTED

On April 1, 2008, the Société adopted the requirements of the Canadian Institute of Chartered Accountants (CICA): Chapter 1535, "Capital Disclosures," Chapter 3862, "Financial Instruments – Disclosure," and Chapter 3863, "Financial Instruments – Presentation."

Capital disclosures

Chapter 1535 establishes standards governing the entity's capital disclosures and the manner in which the capital is managed. The new standards stipulate that an entity must disclose:

- its capital management objectives, policies and procedures;
- its synthetic quantitative data on the items included in capital management;
- confirmation of its compliance during the period with the requirements governing capital to which it is subject under external rules;
- the consequences of non-application if it failed to meet these requirements.

The requisite information is presented in Note 9.

Financial instruments – Disclosure

Chapter 3862 modifies disclosure requirements concerning financial instruments, previously found in Chapter 3861, "Financial Instruments – Disclosure and Presentation." The new standards stipulate that an entity must provide information in its financial statements that will enable users to ascertain:

- the importance of financial instruments with respect to its financial position and financial performance;
- the nature and scope of risks stemming from financial instruments to which the entity is exposed during the period and on the balance sheet date, and the manner in which the entity manages its risks.

Financial instruments – presentation

Chapter 3863 maintains directives concerning presentation found in former Chapter 3861, "Financial Instruments – Disclosure and Presentation."

The adoption of the recommendations in Chapters 3862 and 3863 has not affected the recording or evaluation of the financial instruments. The requisite information is presented in Note 14.

4. ACCOUNTS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Interest receivable on investments including an \$89 608 provision for doubtful debts (2008: \$22 932)	\$49 912	\$104 359
Other, including a \$0 provision for doubtful debts (2008: \$12 115)	<u>2 589</u>	<u>29 939</u>
	<u>\$52 501</u>	<u>\$134 298</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. INVESTMENTS – COMMERCIAL PAPER (ABCP)

Since July 2007, the Société has held investments in the Canadian asset-backed commercial paper (ABCP) market not guaranteed by banks.

On December 23, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset Backed Commercial Paper approved a proposed agreement to restructure the series linked to the ABCP issued by 20 trust companies.

On April 25, 2008, the holders of ABCP voted in favour of the restructuring plan, whose implementation was finalized on January 21, 2009.

In accordance with the restructuring plan, the ABCP concerned was replaced by longer-term variable-rate notes combined with maturity dates more closely aligned with the maturity dates of the underlying assets. The plan also makes provision, in certain cases, for the grouping together of certain assets and the creation of new margin financing facilities to support any call for a guarantee that might arise.

The ABCP series in question were grouped together in newly formed master asset vehicles (MAV1, MAV2 and MAV3). The Société decided to adhere to MAV2 and is not subject to any future margin call.

On January 21, 2009, following the restructuring of the ABCP, the Société received MAV2 notes whose total face value stood at \$6 714 056 dated March 31, 2009.

The Société received a combination of Class A-1, A-2, B and C notes with an anticipated maturity date in July 2056 at the latest. However, most of the notes are expected to be reimbursed in 2016. Moreover, the Société received a Class 13 note whose underlying assets were ineligible for the restructuring plan and which mature in March 2014.

A subordination sequence is built into the notes: C notes are subordinate to B notes, B notes are subordinate to A-2 notes, and A-2 notes are subordinate to A-1 notes. This waterfall structure is designed to ensure that the subordinated tranches absorb the initial losses so as to immunize the superior tranches. Given the waterfall structure, the C and B notes absorb the biggest drops in value. In December 2008, DBRS issued the rating A to A-1 and A-2 notes but did not provide a credit rating for B, C and 13 notes.

Given that there is no active market for ABCP securities, the Société has determined, in accordance with the CICA directives, the fair value by means of an evaluation technique based on assumptions stemming from the information available as at March 31, 2009.

The Société deems that the estimated fair values recognized are reasonable and the most appropriate at March 31, 2009. However, these fair values are established using the information available at that time, the Société's assessment of the financial market context and assumptions and probabilities. Consequently, the fair values presented may vary considerable in subsequent periods. The most critical assumption is based on the restructuring proposal's probability of success. The possible changes that could appreciably affect the future value of ABCP include changes in the value of the underlying assets, changes in the liquidity of the ABCP market, and the impact of a severe, prolonged economic downturn.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

5. INVESTMENTS – COMMERCIAL PAPER (ABCP) (cont'd)

ABCP subject to the restructuring plan

	<u>Face value</u>	<u>Total loss in value</u>	<u>Fair value</u>	<u>Maturity date</u>	<u>Interest*</u>	<u>Rating</u>
A-1 Note	\$6 005 396	\$2 516 261	\$3 489 135	July 15, 2056	BA – 0.5%	A
A-2 Note	293 525	131 206	162 319	July 15, 2056	BA – 0.5%	A
B Note	53 283	36 978	16 305	July 15, 2056	BA – 0.5%	
C Note	196 459	196 459		July 15, 2056	BA + 20%	
13 Note	165 393	153 237	12 156	March 20, 2014	BA + 11%	
Total	<u>6 714 056</u>	<u>3 034 141</u>	<u>3 679 915</u>			

ABCP excluded from the restructuring plan

Superior Trust	<u>1 075 725</u>	<u>476 546</u>	<u>599 179</u>	September 28, 2016	BA + 0.35%	AA
Total	<u>\$7 789 781</u>	<u>\$3 510 687</u>	<u>\$4 279 094</u>			

* BA: bankers' acceptance

6. INVESTMENTS

	<u>2009</u>	<u>2008</u>
Common stock		
private corporations	\$6 133 525	\$4 728 128
public corporations	6 340 651	8 348 179
Securities convertible into common stock:		
Capital stock	5 662 710	6 261 403
Debentures and loans (Note 14b) maturing from 2009 to 2011	1 072 500	2 881 196
Securities not convertible		
Capital stock	2 543 326	1 793 326
Debentures and loans (Note 14b) maturing from 2010 to 2013	1 787 545	1 793 770
Refundable contributions (Note 14b) maturing in 2010 and 2011	527 276	800 146
	<u>\$24 067 533</u>	<u>\$26 606 148</u>

Interest capitalized during the fiscal year totalled \$89 959 (2008: \$346 650).

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

7. TANGIBLE ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Leasehold improvements	\$55 703	\$36 408	\$19 295	\$33 654
Office equipment	16 135	15 636	499	931
Data processing equipment	142 993	138 699	4 294	9 391
Furniture and equipment	137 777	136 360	817	2 000
	<u>\$352 608</u>	<u>\$327 103</u>	<u>\$24 905</u>	<u>\$45 976</u>

8. CAPITAL STOCK

The *Act respecting the Société Innovatech Québec et Chaudière-Appalaches* is designed to enable the Société to continue operating and be endowed with an authorized partnership fund of \$150 000 000, which is divided into 1 500 000 shares with a face value of \$100 each.

All of the shares in the partnership fund of the Société belong to the public domain and are allocated to the Minister of Finance. During the fiscal year ending March 31, 2009, no new share was issued.

	2009	2008
Authorized:		
1 500 000 common shares with a par value of \$100 each		
Issued and paid:		
1 267 830 common shares	<u>\$126 783 096</u>	<u>\$126 783 096</u>

9. CAPITAL MANAGEMENT

The Société manages its capital, which comprises equity, in order to ensure that such capital is sufficient for its operation and to allow it to convert its assets while maximizing the return for its sole shareholder, the Gouvernement du Québec.

The Société structures its capital in light of changing economic conditions and is not subject to any requirement imposed by regulatory authorities concerning its capital other than as described in Note 8.

10. CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

	2009	2008
Accounts receivable	\$81 797	\$525 819
Prepaid expenses	(5 901)	14 899
Accounts payable and accrued liabilities	<u>(32 565)</u>	<u>(2 070)</u>
	<u>\$43 331</u>	<u>\$538 648</u>

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and measured at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

12. COMMITMENTS

As at March 31, 2009, the Société's commitments related to financial support for initiatives amounted to \$274 431 (March 2008: \$689 994).

Commitments related to financial support of initiatives represent investments authorized by the Société's board of directors that had not yet been disbursed at March 31, 2009. Depending on certain events, these amounts may not be paid out.

13. CONTINGENCY

In June 2006, a lawsuit was instituted against the Société. These proceedings target mainly the payment of damages and interest of a maximum of \$930 000. On the date the financial statements were prepared, the Société was unable to assess the result of this lawsuit and its potential financial impacts, if applicable.

14. FINANCIAL INSTRUMENTS
a) Credit risks and price fluctuations

The book value of financial assets represents the Société's maximum exposure to credit risk.

Credit risk results from the possibility that the party to the operation might not respect its commitments and price fluctuation risk stems from the fluctuation in the value of the security held. The Société invests in corporations with a promising competitive position in their respective markets and strong growth potential. However, it is exposed to the economic conditions affecting the sectors in which it exercises its activities.

At March 31 2009, the investment concentration breaks down as:

	2009	2008
Life sciences	18%	25%
Advanced applied technologies	42%	44%
Information technologies	31%	23%
Other venture capital funds	9%	8%

The highest concentration for the same investment is 17% of the fair value of total investments (8.1% at March 31, 2008).

The financial instruments that might affect the Société at a credit concentration and price fluctuation comprise primarily cash on hand, payables and investments. Cash is held with a top-ranking financial institution. Consequently, management deems that the credit risk linked to cash is minimal. Payables and investments involve companies which were analyzed in depth at the time of the initial investment. Company growth is analyzed on a regular basis and monitored as necessary. Management does not believe it is exposed to credit risks and price fluctuations that are higher than average for its activity sector.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

14. FINANCIAL INSTRUMENTS (cont'd)**b) Interest-rate risk**

The interest rates on the Société's investments and the risk to which it is exposed with regard to these interest rates are summarized in the following table:

	Interest- free	Fixed rate *	Total
Debtures and convertible loans in common stock maturing from 2009 to 2011		\$1 072 500	\$1 072 500
Debtures and non-convertible loans in common stock maturing from 2010 to 2013		1 787 545	1 787 545
Refundable contributions maturing in 2010 and 2011	\$527 276		527 276
	<u>\$527 276</u>	<u>\$2 860 045</u>	<u>\$3 387 321</u>

* Interest rates vary from 7% to 20%.

The interest rates on the debtures and loans correspond to market rates. Their fair market value corresponds to their amortized cost. Assuming that all of the other variables remain constant, a 1% upward or downward fluctuation in the annual interest rate would reduce the fair market value of the debtures and loans by \$38 564 and increase it by \$40 004.

c) Foreign currency risk

The Société has invested certain amounts in the US dollar. Consequently, certain assets are exposed to interest rate fluctuations. At March 31, 2009, the net asset in US dollars converted into Canadian dollars represented \$5 231 099 (\$6 606 054 at March 31, 2008). The Société uses no instrument to manage interest-rate fluctuation risks.

In view of the aforementioned data as at March 31, 2009, and assuming that all of the other variables remain constant, a 5% depreciation or appreciation of the Canadian dollar in relation to the US dollar would result in a decrease or an increase in the net loss on the order of \$252 187 in respect of currency exposure based on the US dollar.

15. FIGURES FOR THE PRECEDING FISCAL YEAR

Certain figures from the 2008 financial statements have been reclassified to bring the presentation into line with that adopted in 2009.

SOCIÉTÉ INNOVATECH QUÉBEC ET CHAUDIÈRE-APPALACHES**MANAGEMENT'S REPORT**

The financial statements of the Société Innovatech Québec et Chaudière-Appalaches were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements. The internal audit and investigations department conducts audits periodically to ensure that the internal controls applied regularly by the Société are appropriate and consistent.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it. The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements for the fiscal year ended March 31, 2009.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Chantal Brunet
Acting President and CEO

Josée Tremblay, CA
Outside Consultant

Québec, May 29, 2009

AUDITOR'S REPORT

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Québec et Chaudière-Appalaches as at March 31, 2009 and the statements of operations, comprehensive income, cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally Accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, May 29, 2009

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES
(R.S.Q., c. S-17.5)

BALANCE SHEET
as at March 31

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash on hand	\$19 946	\$4 875
Short-term investments – bank acceptance 0.50%, maturing in April 2009	6 836 698	3 022 123
Investments (Note 4)	19 909 501	22 483 668
Other assets	<u>1 898</u>	<u>14 140</u>
	<u>\$26 768 043</u>	<u>\$25 524 806</u>
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Account payable to a related, jointly-controlled entity	\$25 231	\$23 517
Amount payable to a related, jointly-controlled entity	<u>1 178 695</u>	
	<u>1 203 926</u>	<u>23 517</u>
Shareholder's equity		
Capital stock (Note 5)	51 250 000	51 250 000
Cumulated deficit	<u>(25 685 883)</u>	<u>(25 748 711)</u>
	<u>25 564 117</u>	<u>25 501 289</u>
	<u>\$26 768 043</u>	<u>\$25 524 806</u>

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Pierre-B. Lafrenière, President of the Board
André Côté, Director

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCESSTATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND CUMULATED DEFICIT
for the year ended March 31

	<u>2009</u>	<u>2008</u>
REVENUES		
Investment income	\$87 385	\$128 576
Other revenues	<u>1 054</u>	<u>50 782</u>
	<u>88 439</u>	<u>179 358</u>
INVESTMENT EXPENSES		
Change in the unrealized (increase in value) decline in value on investments	<u>(77 069)</u>	<u>26 442</u>
	<u>(77 069)</u>	<u>26 442</u>
OPERATING EXPENSES		
Professional and contractual services	15 411	41 743
Administrative service fees – Related, jointly-controlled entity	76 360	75 398
Insurance	10 909	11 150
Other expenses	<u>38</u>	<u>38</u>
	<u>102 680</u>	<u>128 329</u>
NET EARNINGS AND COMPREHENSIVE INCOME	62 828	24 587
OPENING CUMULATED DEFICIT	<u>(25 748 711)</u>	<u>(25 773 298)</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(25 685 883)</u></u>	<u><u>\$(25 748 711)</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCESSTATEMENT OF CASH FLOWS
for the year ended March 31

	<u>2009</u>	<u>2008</u>
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
Net earnings	\$62 828	\$24 587
Adjustments for:		
Change in the unrealized (increase in value) decline in value on investments	<u>(77 069)</u>	<u>26 442</u>
	----- (14 241) -----	----- 51 029 -----
Change in assets and liabilities related to operations:		
Other assets	12 242	6 315
Account payable to a related, jointly-controlled entity	1 714	(93 130)
Amount payable to a related, jointly-controlled entity	1 178 695	
Provision for surety to a financial institution		<u>(1 000 000)</u>
	----- 1 192 651 -----	----- (1 086 815) -----
	<u>1 178 410</u>	<u>(1 035 786)</u>
CASH FLOWS RELATED TO INVESTMENT ACTIVITIES		
Withdrawal of capital in a limited partnership	<u>2 651 236</u>	<u>1 355 907</u>
	<u>2 651 236</u>	<u>1 355 907</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3 829 646	320 121
OPENING CASH AND CASH EQUIVALENTS	<u>3 026 998</u>	<u>2 706 877</u>
CLOSING CASH AND CASH EQUIVALENTS	<u><u>\$6 856 644</u></u>	<u><u>\$3 026 998</u></u>
CASH AND CASH EQUIVALENTS		
Cash on hand	\$19 946	\$4 875
Short-term investment	<u>6 836 698</u>	<u>3 022 123</u>
	<u><u>\$6 856 644</u></u>	<u><u>\$3 026 998</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. CONSTITUTION AND PURPOSE

The Société Innovatech Régions ressources is a legal person established in the public interest incorporated by the legislation governing it, i.e. the *Act respecting Société Innovatech Régions ressources* (R.S.Q., c. S-17.5), to promote and support initiatives likely to increase the capacity for technical innovation on the territory defined in its incorporating Act and, thereby, to enhance Québec's competitiveness and economic growth.

The Société defines itself as an investment company, more precisely a venture capital agency. In other words, its investment commitments take the form of leveraged investments in companies with strong growth potential.

Under section 3 of its incorporating legislation, the Société is an agent of the State and, as such, does not pay Québec or Canadian income tax.

2. STATEMENT OF MAIN ACCOUNTING POLICIES

Use of estimates

Preparation of the Société's financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions, in particular to establish the initial fair value of financial assets and liabilities and on the date of each year end that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates and the impact would be reported in future fiscal years.

New accounting standards adopted since April 1, 2008

On April 1, 2008, the Société adopted three new accounting standards released by the Canadian Institute of Chartered Accountants (CICA): Section 1535, "Capital Disclosures", Section 3855, "Financial Instruments – Recognition and Measurement", Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

Section 1535 specifies information to disclose on the entity's capital management goals, policies and procedures, quantitative data on the items the entity considers capital, the entity's compliance with capital-related requirements and the consequences of defaulting on compliance with the requirements in question.

Sections 3862 and 3863 constitute a series of disclosure obligations and presentation rules applicable to financial instruments, which modify and improve the disclosure obligations stated in Section 3861, "Financial Instruments – Disclosure and Presentation" and, repeat the presentation rules, without changes.

Section 3862 defines information to disclose to enable users to assess the financial instruments' importance for the entity's financial position and performance, and to evaluate the nature and scope of the risks resulting from the financial instruments to which the entity is exposed and how it manages these risks.

The adoption of these new standards has not affected in any way the Société's results, since these chapters specifically cover disclosure.

Classification and evaluation of financial instruments

Financial instruments, other than investments held by an investment company and with the exception of certain exclusions stipulated in Chapter 3855, must be classified according to their characteristics, management's intention, or the choice of category in certain circumstances. When they are initially recorded, all of the financial assets are classified as held for transaction purposes, held until maturity, available for sale or loans and accounts receivable, while financial liabilities are classified as held for transaction purposes or other financial liabilities. It is also allowed to irrevocably designate any financial asset or liability as an instrument held for transaction purposes.

When initially recognized, all financial assets and liabilities are measured at their fair value. Where applicable, any discrepancy between the fair value and the cash consideration is immediately posted to net results, unless it meets the recognition criteria for another type of asset or liability.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. STATEMENT OF MAIN ACCOUNTING POLICIES (cont'd)**Classification and evaluation of financial instruments (cont'd)**

In subsequent periods, financial assets and liabilities held for transaction purposes are measured at their fair value and gains or losses are posted to results. Financial assets available for sale are measured at their fair value and the resulting unrealized gains and losses are recognized as other comprehensive income items. Financial assets held until maturity, loans and accounts receivable and other financial liabilities are measured at cost after amortization using the effective interest rate method.

Derivatives embedded in other financial instruments or contracts, other than those held or designated for transaction purposes, are separated from their host contracts and recorded as derivatives when the economic characteristics and risks that they present are not closely linked to those that the host contract presents. As at March 31, 2009 and 2008, the Société held neither existing contracts nor financial instruments that included incorporated derivatives that required separation.

A financial instrument's fair value generally corresponds to the consideration for which the instrument would be exchanged in the context of a transaction between unrelated parties acting freely under fully competitive conditions in the normal course of business. The best indication of fair value is market price.

Comprehensive income

The Société did not classify any financial instrument as financial assets available for sale. Consequently, comprehensive income does not differ from net profits.

Cash and cash equivalents

Cash and cash equivalents comprise primarily cash on hand and short-term investments maturing within a maximum of three months of the acquisition date. Cash and cash equivalents are held for transaction purposes and recognized at their fair value, which is considered equal to their book value, given that they mature in the short term. Gains and losses are recognized under "Interest income" in the statement of operations.

Investments

The Société is an investment company, within the meaning of Accounting Guideline 18 (AcG-18) – Investment Companies of the Canadian Institute of Chartered Accountants' Handbook.

In keeping with these Accounting Guidelines, investments were established at their fair value, that is, the consideration on which parties having jurisdiction acting freely under fully competitive market conditions would agree on the date of the financial statements. The investments' realization value could vary significantly compared to the fair value following changes in market conditions.

Investments comprise shares in a limited partnership and a loan and the shares of a private corporation. The fair value of shares in the limited partnership is based on the company's audited financial statements at December 31 and adjusted by the latter's important transactions during this last transitional period which, as an investment company, is measured at fair value.

The loan's fair value is established using market measurement techniques. The significant assumptions taken into account in establishing the fair value can include actualization or capitalization rates, discounts rates, yield rates and weighting of provisional results.

The shares of a private corporation are evaluated according to an evaluation technique recognized on the market that includes, primarily, the reference to a bid and arm's length transactions and discounted cash flow.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. STATEMENT OF MAIN ACCOUNTING POLICIES (cont'd)**Other liabilities**

The account payable to a related, jointly-controlled entity and the amount payable to a related, jointly-controlled entity are classified as "Other liabilities." Their fair value is deemed to be equivalent to their book value because of their short-term maturity.

3. FUTURE CHANGES TO ACCOUNTING POLICIES BASED ON ACCOUNTING STANDARDS TO BE ADOPTED BY THE SOCIÉTÉ**International Financial Reporting Standards (IFRS)**

In February 2008, the Accounting Standards Board of Canada confirmed that publicly accountable enterprises will be obliged to apply the International Financial Reporting Standards (IFRS). Accordingly, the Société must make the transition to a unique body of internationally recognized standards that will replace Canadian generally accepted accounting principles. The Société must apply these standards by April 1, 2011 at the latest.

4. INVESTMENTS

	<u>2009</u>	<u>2008</u>
Investment in Desjardins – Innovatech S.E.C. (29.5% of the shares issued at March 31, 2009 and 33.9 % at March 31, 2008)	<u>\$19 909 501</u>	<u>\$22 483 668</u>

The Société also holds an investment in the form of a loan and shares in a private corporation, whose fair value is zero.

5. CAPITAL STOCK

Under the *Act respecting Société Innovatech Régions ressources* (R.S.Q., c. S-17.5), the Société has an authorized partnership fund of \$100 000 000.

	<u>2009</u>	<u>2008</u>
Authorized: 1 000 000 common shares with a par value of \$100 each		
Issued and paid: 512 500 common shares	<u>\$51 250 000</u>	<u>\$51 250 000</u>

The shares of the Société's partnership fund belong to the State and are assigned to the Minister of Finance.

6. CAPITAL DISCLOSURES

For the purposes of capital management, the Société's capital comprises the shareholders' equity. As at March 31, 2009, the balance of the Société's equity stood at \$25 564 117 (balance of \$25 501 289 as at March 31, 2008).

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

7. RISK MANAGEMENT LINKED TO FINANCIAL INSTRUMENTS

Management has adopted control and management policies and procedures that ensure the management of the risk inherent in financial instruments and minimize its potential impact.

Credit risk

The credit risk is associated mainly with losses the Société might suffer or costs it might have to incur due to a third party's inability to honour its financial commitments.

The book value of financial assets represents the Société's maximum exposure to credit risk.

Market risk

These risks include the interest rate risk, the currency risk and the risk linked to stock markets. The Société's activities are not significantly influenced by these risks.

The Société manages its investment portfolio in light of its cash needs and in order to optimize its interest income.

The effective interest rate obtained on temporary investments during the fiscal year ranged from 0.50% to 3.54% (2008: from 3.50% to 4.90%). The maturity dates on the investments range from one day to 76 days.

Liquidity risk

The liquidity risk is associated with the Société's ability to gather the funds necessary to honour its financial commitments. The goal of liquidities management is to guarantee access to funds when opportune and in an optimal manner.

The account payable to a related, jointly-controlled entity is payable within 30 days. The amount payable to a related, jointly-controlled entity is payable within 120 days.

The Société is of the opinion that it holds sufficient investments that are readily convertible to cash to ensure that it has the funds necessary to meet its current and long-term financial needs at reasonable cost, as the case may.

8. RELATED PARTY TRANSACTIONS

In addition to the related party operations disclosed in the financial statements and posted at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

9. SUBSEQUENT EVENT

An accounting firm was mandated in June 2009 to value the Société's investments and the valuation was to be available in the fall of 2009. The investment is presented cautiously, bearing in mind the information available at the fiscal year end, as at March 31, 2009 with zero value (zero value as at March 31, 2008). Moreover, given uncertainty surrounding the measurement, the valuation might lead to modification of the investment's fair value.

SOCIÉTÉ INNOVATECH RÉGIONS RESSOURCES**AUDITOR'S REPORT**

To the Minister of Finance

I have audited the balance sheet of the Société Innovatech Régions ressources as at March 31, 2009 and the statements of operations, comprehensive income and cumulated deficit and cash flows for the period then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

In conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, with the exception of the application of changes concerning disclosure on capital management and financial instruments, as disclosed in Note 2, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 17, 2009

SOCIÉTÉ NATIONALE DE L'AMIANTE
(R.S.Q., c. S-18.2)

CONSOLIDATED STATEMENT OF INCOME, COMPREHENSIVE INCOME AND DEFICIT
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Balancing subsidy	420	344
Interest		1
Other revenues		7
	<u>420</u>	<u>352</u>
EXPENSES		
Administrative expenses	205	275
Professional services	4	156
Future fringe benefits	102	(45)
Moving expenses	299	
	<u>610</u>	<u>386</u>
OPERATING LOSS	<u>(190)</u>	<u>(34)</u>
Gains on the disposal of investments	30	
Gain on the disposal of capital assets	2	
	<u>32</u>	
NET LOSS	(158)	(34)
OPENING DEFICIT	<u>(159 091)</u>	<u>(159 057)</u>
CLOSING DEFICIT	<u>(159 249)</u>	<u>(159 091)</u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash on hand	27	6
Subsidies receivable	<u>25</u>	<u> </u>
	<u>52</u>	<u>6</u>
LIABILITIES		
Current liabilities		
Accounts payable	231	128
Future fringe benefits (Notes 7 and 8)	<u>701</u>	<u>600</u>
	<u>932</u>	<u>728</u>
SHAREHOLDERS' EQUITY DEFICIT		
Capital stock (Note 6)	158 369	158 369
Deficit	<u>(159 249)</u>	<u>(159 091)</u>
	<u>(880)</u>	<u>(722)</u>
	<u>52</u>	<u>6</u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net loss	(158)	(34)
Adjustments for:		
Gain on the disposal of investments	(30)	
Gain on the disposal of capital assets	(2)	
	<u>(190)</u>	<u>(34)</u>
Net change in Working Capital Fund non-cash items	<u>179</u>	<u>(84)</u>
	<u>(11)</u>	<u>(118)</u>
INVESTING ACTIVITIES		
Proceeds of disposition of investments	30	
Proceeds of disposition of capital assets	2	
	<u>32</u>	<u></u>
Increase (decrease) in cash	21	(118)
OPENING CASH	<u>6</u>	<u>124</u>
CLOSING CASH	<u><u>27</u></u>	<u><u>6</u></u>

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS

for the year ended March 31, 2009

(in thousands of dollars)

1. DESCRIPTION

The Société nationale de l'amiante (SNA) is a government enterprise wholly owned by the Gouvernement du Québec. It was established by the *Act respecting the Société nationale de l'amiante* (R.S.Q., c. S-18.2) and holds investments in an inoperative enterprise.

2. ONGOING OPERATIONS

These financial statements were prepared in accordance with accounting principles that are valid in a context of ongoing operations. However, numerous unfavourable events and circumstances raise significant doubts as to the validity of these accounting policies.

Given that the Société has posted an operating loss for the past few years, it would be impossible for it to meet its financial obligations should the Gouvernement du Québec decide to withdraw its financial support.

On December 14, 2005, based on the recommendation of the working group that examined government agencies, the National Assembly adopted *Bill 120* authorizing the Gouvernement du Québec to proceed, by Order-in-Council on the date and according to the terms and conditions it determines, with the dissolution of the Société or its ongoing operations as a public corporation governed by the provisions of Part IA of the *Companies Act*. No Order-in-Council had been tabled to this effect in the National Assembly on the date these financial statements were prepared. Henceforth, the Société will be financed by subsidies negotiated from time to time, as required.

Should the agreement regarding ongoing operations not comply with these financial statements, it might be necessary to adjust the book value of assets and liabilities, the net loss declared and the classification of balance sheet items.

3. CHANGES IN ACCOUNTING POLICIES

Capital disclosures

The Société has adopted the recommendations of Chapter 1535 of the Canadian Institute of Chartered Accountants (CICA) handbook, "Capital Disclosures." This chapter requires the presentation of information on requirements concerning capital pursuant to external rules. The adoption of this chapter has not had any impact on the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Because the new standards concerning financial instruments will be included in the proposed generally accepted accounting principles for private companies that CICA is now elaborating, CICA has decided that private companies will not be obliged to apply the following chapters in the CICA Handbook: 1530, 3862, 3863 and 3865, which would otherwise have applied to the Société's financial statements for the fiscal year ended March 31, 2009. The Société decided to take advantage of this exemption and continues to comply with the requirements of Chapter 3860 and Accounting Guideline 13 of the CICA Handbook.

The financial statements have been drawn up in accordance with Canadian generally accepted accounting principles and reflect the following main accounting policies:

Consolidation perimeter

The consolidated financial statements group together the accounts of the Société nationale de l'amiante and of its subsidiary Mines SNA (held 100%).

Financial instruments

Financial assets and liabilities are initially reported at fair value and their subsequent measurement depends on their classification, as described below. Their classification depends on the goal when they were acquired or issued, their characteristics and the designation by the Société. They are recognized on the transaction date.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Financial instruments (cont'd)***Classification*

Cash on hand	Held for transaction purposes
Subsidies receivable	Loans and accounts receivable
Accounts payable and accrued liabilities	Other liabilities

Held for transaction purposes

Financial assets held for transaction purposes are financial assets generally acquired for resale before they reach maturity or designated as held for transaction purposes. They are measured at fair value on the closing date. Fluctuations in fair value, which include interest earned, interest accrued, gains and losses realized on sale and unrealized gains and losses are included under other income.

Loans and accounts receivable

Loans and accounts receivable are recognized at cost after amortization according to the effective rate method.

Other liabilities

Other liabilities are recognized at cost after amortization using the effective interest rate method and include all financial liabilities other than derivative instruments.

Effective interest rate method

The Société uses the effective interest rate method to report interest income or charges, which includes transaction costs, fees, premiums and discounts earned or committed for financial instruments.

Future fringe benefits

The Société committed to contributing to a supplementary pension fund for its employees. The actuarial value for benefits resulting from this fund established by the Société's actuarial consultants is recognized as a liability and the change from one fiscal year to another is expressed as an expense in the statement of operations.

Income tax

Since all of the Société's shares are held by the Gouvernement du Québec, the Société nationale de l'amiante is exempt from income tax, as is its wholly-owned subsidiary.

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

SOCIÉTÉ NATIONALE DE L'AMIANTE

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
for the year ended March 31, 2009
(in thousands of dollars)

5. INVESTMENT

	2009	2008
Preferred Category C shares in Les Technologies Fibrox Ltée		500
Provision for permanent decline in value		500

All of the preferred shares were sold for \$30 000 in cash, which generated a gain the disposal of the investment.

6. CAPITAL STOCK

Authorized
250 000 common shares with a par value of \$1 000 each

	2009	2008
Issued		
158 369 common shares	158 369	158 369

In accordance with the *Act respecting the Société nationale de l'amiante*, all of the Société's shares are part of the public domain and are assigned to the Minister of Finance of the Gouvernement du Québec.

7. FUTURE FRINGE BENEFITS

The actuarial value of the supplementary pension fund was established according to the Société's actuarial consultants and the following main assumptions:

	%
Actualization interest rate	
First ten years of actualization	3.50
Following years	4.25
Indexation foreseen for future years	
Lesser of 3% or 50% of the annual CPI	

The amount of the liability established is subject to future changes according to the actuarial assumptions prevailing at the time of payment of the benefit.

8. SUBSEQUENT EVENTS

After the period end, the Société received a letter from the Ministère des Ressources naturelles et de la Faune, dated June 22, 2009, indicating that it will not pay the amount of financial assistance requested by the Société nationale de l'amiante to cover the supplementary pension fund and severance pay of its former employees.

9. FINANCIAL INSTRUMENTS**Fair value**

The fair value of cash on hand, the subsidy receivable and accounts payable and accrued liabilities corresponds approximately to their book value given that they mature in the short term.

SOCIÉTÉ NATIONALE DE L'AMIANTE**AUDITORS' REPORT**

To the Minister responsible for the
Société nationale de l'amiante

We have audited the balance sheets of the Société nationale de l'amiante as at March 31, 2009 and the consolidated statement of income, comprehensive income and deficit and statement of cash flows for the year then ended. These financial statements are the responsibility of the Société'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, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche S.E.N.C.R.L.¹

October 30, 2009

¹ Chartered accountant auditor permit No. 6724

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
(R.S.Q., c. S-18.2.1)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
REVENUES		
Management fees (Note 4)	18	9
Financial revenue		
Gouvernement du Québec	120 595	124 175
Municipalities	11 923	12 688
Other	<u>2 738</u>	<u>2 666</u>
	<u>135 274</u>	<u>139 538</u>
EXPENSES		
Operating expenses	29	28
Financial expenses (Note 6)	<u>135 245</u>	<u>139 510</u>
	<u><u>135 274</u></u>	<u><u>139 538</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

BALANCE SHEET
as at March 31, 2009
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets		
Cash	2 022	1 671
Accounts receivable		
Gouvernement du Québec	44 493	45 102
Municipalities	3 757	3 483
Gouvernement du Québec receivables (Note 7)	113 062	38 980
Amounts receivable from the municipalities (Note 7)	15 605	17 901
Prepaid expenses	21	24
	<u>178 960</u>	<u>107 161</u>
Long-term Gouvernement du Québec receivables (Note 7)	2 091 657	2 204 670
Long-term amounts receivable from the municipalities (Note 7)	134 757	153 429
Completed, uninvoiced work	230	232
Long-term investment – amortization fund (Note 8)	63 022	60 600
Other assets	<u>272</u>	<u>832</u>
	<u><u>2 468 898</u></u>	<u><u>2 526 924</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	48 799	49 326
Instalments on long-term debt (Note 9)	128 204	56 368
	<u>177 003</u>	<u>105 694</u>
Accounts payable and accrued liabilities on completed work	198	175
Long-term debt (Note 9)	2 291 297	2 420 638
Deferred revenue	<u>400</u>	<u>417</u>
	<u><u>2 468 898</u></u>	<u><u>2 526 924</u></u>

CONTINGENCIES (Note 10)

The notes are an integral part of these financial statements.

Jacques A. Tremblay
Director of the Société

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
STATEMENT OF CASH FLOWS
 for the year ended March 31, 2009
 (in thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Cash inflow – management fees	1	3
Cash inflow – financial revenue	135 598	141 884
Cash outflow – interest paid	(134 874)	(140 968)
Cash outflow – other financial expenses	(250)	(250)
Cash outflow – administration expenses	<u>(11)</u>	<u></u>
Cash flows related to operating activities	<u>464</u>	<u>669</u>
INVESTMENT ACTIVITIES		
Receipts on long-term receivables	59 903	105 856
Encashment – Amortization Fund	10 806	15 130
Investment acquisition – Amortization Fund	<u>(13 227)</u>	<u>(16 828)</u>
Cash flows related to investing activities	<u>57 482</u>	<u>104 158</u>
FINANCING ACTIVITIES		
Long-term debt	74 786	120 696
Repayment of long-term debt	<u>(132 381)</u>	<u>(224 619)</u>
Cash flows related to financing activities	<u>(57 595)</u>	<u>(103 923)</u>
NET INCREASE IN CASH	351	904
OPENING CASH ON HAND	<u>1 671</u>	<u>767</u>
CLOSING CASH ON HAND	<u>2 022</u>	<u>1 671</u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**NOTES TO THE FINANCIAL STATEMENTS**

March 31, 2009

(in thousands of dollars)

1. IDENTIFICATION AND FINANCING

The Société québécoise d'assainissement des eaux, a legal person under the Civil Code, was created under a special act (R.S.Q., chapter S-18.2.1) and is a non-profit government corporation.

The Société conducted studies and the water purification, water and sewage work on behalf of the municipalities and invoices the Gouvernement du Québec and the municipalities for their funding.

Under an amendments to the Société's incorporating statute, which came into effect in March 1, 2007 (2006, c. 60), the Société's business is administered by the person designated Québec Minister of Municipal Affairs, Regions and Land Occupancy.

2. SIGNIFICANT ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates.

For the purposes of the preparation of its financial statements, the Société relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). The use of any other source of generally accepted accounting principles must be in keeping with the handbook.

Management fees

Management fees reflect a percentage of the cost of water purification, sewage, water and other work.

Deferred revenue

The Société is unable to accurately establish management fees earned yearly over the full duration of its mandate.

Consequently, the annual surplus of management fees over net operating expenses is posted to deferred revenue or, in cases involving the opposite, deferred revenue reported equal the annual surplus of net operating expenses over management fees invoiced and are posted to revenues for the fiscal year.

Long-term receivables

Long-term receivables, to be collected by the municipalities and the Gouvernement du Québec, include expenses charged to water purification, water and sewage work, and the financing of watercourse bank development work and other work carried out by municipalities, net of reimbursements received.

Long-term investment – Amortization Fund

Investments in the Amortization Fund are recorded at cost.

Other assets

The long-term debt premium and issuing costs are deferred. These items are amortized according to the rate in effect over the term of the loan.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX
NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

3. CHANGE IN AUTHORITATIVE ACCOUNTING PRONOUNCEMENTS

Since April 1, 2008, the Société Québec has established its financial statements using the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). It previously used the CICA handbook for the private sector. The impact of the initial application of these new standards has been recognized retroactively with the restatement of the comparative financial statements. This change has no impact on the Société's accounting policies and results.

Information on financial instruments is no longer required since the relevant standards are not applicable according to generally accepted accounting principles in the public sector. This modification has no impact on the book value of assets and liabilities.

4. MANAGEMENT FEES

	2009	2008
Management fees invoiced	1	3
Transfer to deferred revenue	17	6
	<u>18</u>	<u>9</u>

5. SALARIES AND SOCIAL BENEFITS

Wages paid to two employees reporting to the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT) in the context of services provided free of charge to the Société, i.e. all services other than Amortization Fund management, are not included in this item. The Société has employed one of the two employees since March 2, 2009. However, since December 15, 2005, the cost of services supplied by a MAMR employee to manage the Société's Amortization Fund corresponds to 0.075% of the outstanding average of Amortization Fund assets. These fees are subtracted from rates of return obtained on Amortization Fund assets.

6. FINANCIAL EXPENSES

	2009	2008
Interest on bonds and notes payable	131 487	135 102
Amortization of Gouvernement du Québec long-term debt discount	649	447
Cost of debt guaranteed by the government	250	250
Interest on bank loans	121	1 045
Interest on Amortization Fund credited to municipalities	2 738	2 666
	<u>135 245</u>	<u>139 510</u>

The interest paid for the fiscal year for loans contracted with the Gouvernement du Québec's Financing Fund, a jointly-controlled entity, amounts to \$126 598 482 (2008: \$131 007 953). As at March 31, 2009, the accrued interest for these loans included under "Accounts payable and accrued liabilities" amounted to \$47 714 816 (2008: \$48 233 399).

7. LONG-TERM RECEIVABLES

	2009	2008
Gouvernement du Québec	2 204 719	2 243 650
Current portion	<u>(113 062)</u>	<u>(38 980)</u>
	<u>2 091 657</u>	<u>2 204 670</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

7. LONG-TERM RECEIVABLES (cont'd)

	2009	2008
Municipalities	150 362	171 330
Current portion	(15 605)	(17 901)
	<u>134 757</u>	<u>153 429</u>

The interest rate on long-term receivables is the same as the Société pays on its long-term debt. Receivables mature as follows:

Water purification studies	
Municipalities	5 years
Gouvernement du Québec	25 years
Water and sewage studies and work	10 years
Water purification work	
Municipalities	20 years
Gouvernement du Québec	25 years

The municipalities repay their accounts receivable every interest payment period for the related obligations.

The Government repays the portion of its accounts receivable that is due when the obligation matures.

8. LONG-TERM INVESTMENT - AMORTIZATION FUND

The Société created an Amortization Fund bearing interest for repayment of the municipalities' share of the long-term debt from the periodic remittal of capital by the municipalities. Amortization Fund assets are deposited with the Ministère des Finances and generated a net average rate of return of 4.1803 % for the year ended March 31, 2009 (2008: 4.2347 %).

A net guaranteed rate of return of 3.803 % on the outstanding average of the Amortization Fund's investment was accepted by the Société for the period April 1, 2009 to March 31, 2010.

Amortization Fund equity at March 31, 2009 breaks down as:

	2009	2008
ASSETS		
Cash	1	
Accrued interest receivable	1 075	1 034
Investment – Bonds	<u>62 297</u>	<u>59 687</u>
	<u>63 373</u>	<u>60 721</u>
LIABILITIES		
Interest rate exchange contract	<u>351</u>	<u>121</u>
FUND EQUITY	<u>63 022</u>	<u>60 600</u>

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

9. LONG-TERM DEBT

	2009	2008
Bonds and notes payable ^(a)	2 419 191	2 465 256
Bank loan ^(b)	310	11 750
	<u>2 419 501</u>	<u>2 477 006</u>
Current portion	<u>(128 204)</u>	<u>(56 368)</u>
	<u>2 291 297</u>	<u>2 420 638</u>

Future payments on bonds and notes payable can be broken down as follows as at March 31, 2009:

<u>Maturing</u>	
2010	325 599
2011	604 181
2012	129 578
2013	59 496
2014	499 530
	<u>1 618 384</u>
2015 – 2019	787 592
2020 – 2024	5 425
2025 – 2030	7 790
	<u>2 419 191</u>

- (a) Principal and interest on bonds and notes are guaranteed by the Gouvernement du Québec. At maturity, most of these debts will be refinanced on a long-term basis. An amount of \$2 369 190 671 (2008: \$2 415 256 246) was contracted from the Gouvernement du Québec's Financing Fund, a jointly-controlled entity.
- (b) These bank loans, which are not guaranteed by the Gouvernement du Québec, will be financed on a long-term basis on completion of the financing terms. On average, the related interests were 94 basis points lower than the Canadian charter bank prime rate. An amount of \$310 000 (2008: \$11 750 000) was contracted from the Gouvernement du Québec's Financing Fund, a jointly-controlled entity.

The interest rates on bonds and notes presented below include the interest rate on debts, discounts and all cost related to issues.

	2009 Weighted average
<u>Maturity</u>	(in percentage)
2010 – 2014	5,46
2015 – 2019	5,06
2020 – 2024	4,93
2025 – 2030	5,10
Weighted average	<u>5.32</u>

The weighted average for the previous fiscal year stands at 5.39%.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

March 31, 2009

(in thousands of dollars)

10. CONTINGENCIES

At the date of the financial statements, claims and lawsuits from various suppliers totalled \$735 000. The Société contests these lawsuits resulting from work execution contracts. Neither a possible outcome nor a possible settlement amount, if applicable, can be foreseen at this time. However, a provision for claims payable has been estimated by the Société's management and is presented in "Accounts payable and accrued liabilities" on completed work. Any amount the Société has to disburse to settle these disputes will be invoiced to the Gouvernement du Québec and to the municipalities.

11. RELATED PARTY TRANSACTIONS

In addition to the related party transactions already disclosed in the financial statements, the Société is related to all departments and special funds as well as to all agencies and enterprises directly or indirectly controlled by the Gouvernement du Québec or subject to joint control or significant influence by the Gouvernement du Québec. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements and they are measured at exchange value.

SOCIÉTÉ QUÉBÉCOISE D'ASSAINISSEMENT DES EAUX**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'assainissement des eaux were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

Management fulfils its financial reporting responsibilities.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Jacques A. Tremblay
Director

Québec, July 15, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Société québécoise d'assainissement des eaux as at March 31, 2009 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. This audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Société as at March 31, 2009 and the results of its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the retroactive application of the changes made through the adoption of public sector accounting standards, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 15, 2009

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
(R.S.Q., c. S-22.01)

STATEMENT OF OPERATIONS AND EQUITY
for the year ended March 31, 2009

	2009	2008 Restated (Note 3)
REVENUES		
Green tax on tires – net	\$22 854 118	\$23 196 103
Revenue net on consignment of throw-away containers (Appendix 1)	2 765 764	3 032 059
Compensation for municipal selective collection services	2 598 743	2 132 876
Investment income	2 996 831	2 167 622
Gouvernement du Québec transfers (Appendix 2)	479 211	611 910
Revenue from industrial organizations (Appendix 3)	525 029	507 554
Other	240 092	229 279
	<u>32 459 788</u>	<u>31 877 403</u>
PROGRAM EXPENSES		
Used-tire program (Appendix 4)	20 340 649	21 289 294
Compensation for municipal selective collection services (Appendix 5)	1 546 834	961 717
Other non-refundable contributions (Appendix 6)	993 188	754 130
Support for system of consignment	771 164	748 674
Financial assistance program for social economy businesses	907 757	736 943
Assistance to elaborate residual material management plans		240 000
	<u>24 559 592</u>	<u>24 730 758</u>
MANAGEMENT EXPENSES		
Salaries and fringe benefits	3 991 536	3 738 030
Operations (Appendix 7)	1 707 489	1 255 598
Communications, awareness and education	280 277	276 392
	<u>5 979 302</u>	<u>5 270 020</u>
	<u>30 538 894</u>	<u>30 000 778</u>
EXCESS REVENUES OVER EXPENSES	1 920 894	1 876 625
OPENING EQUITY (Note 3)	<u>39 278 392</u>	<u>37 401 767</u>
CLOSING EQUITY	<u>\$41 199 286</u>	<u>\$39 278 392</u>

The notes and additional information are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

BALANCE SHEET
as at March 31, 2009

	2009	2008 Restated (Note 3)
ASSETS		
Current assets		
Cash on hand	\$1 601 679	\$511 967
Short-term investments (Note 4)	5 837 001	11 028 889
Accounts receivable (Note 5)	9 126 541	8 745 918
Receivable from approved financing organizations (Note 6)	43 707 629	3 078 000
Prepaid expenses	70 530	76 827
	<u>60 343 380</u>	<u>23 441 601</u>
Long-term investments (Note 7)	48 442 029	36 333 370
Capital assets (Note 8)	<u>705 059</u>	<u>329 384</u>
	<u><u>\$109 490 468</u></u>	<u><u>\$60 104 355</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$4 182 889	\$4 323 672
Amounts owing to municipal organizations (Note 6)	42 687 525	3 245 810
Deferred Gouvernement du Québec transfers (Note 10)	366 872	846 083
Amounts refundable under refund agreements (Note 11)	1 994 018	1 914 661
Deferred revenue on the environmental tax on tires (Note 12)	1 354 388	
	<u>50 585 692</u>	<u>10 330 226</u>
Amounts refundable under refund agreements (Note 11)	2 817 482	1 414 140
Deferred revenue on the environmental tax on tires (Note 12)	2 718 612	
Deferred revenue on deposit-refund scheme (Note 3)	3 800 636	1 045 202
Provisions for amounts to be provided in respect of the deposit-refund scheme (Note 13)	8 368 760	8 036 395
	<u>68 291 182</u>	<u>20 825 963</u>
EQUITY (Note 3)	<u>41 199 286</u>	<u>39 278 392</u>
	<u><u>\$109 490 468</u></u>	<u><u>\$60 104 355</u></u>

The notes and additional information are an integral part of these financial statements.

On behalf of the Board of Directors,

José P. Dorais, President

Christian L. Van Houtte, Administrator

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	2009	2008 Restated (Note 3)
OPERATING ACTIVITIES		
Excess revenues over expenses	\$1 920 894	\$1 876 625
Items not affecting cash and cash equivalents:		
Gain on sale of investments	(1 080 663)	(3 048)
Gain on sale of tangible fixed assets	(253)	(515)
Amortization of tangible fixed assets	198 787	196 950
Contribution to acquisition of tangible fixed assets	184 972	169 940
Amortization of the discount and premium on investments – net	359 347	216 254
	<u>1 583 084</u>	<u>2 456 206</u>
Changes in assets and liabilities related to operations (Note 16)	<u>6 461 264</u>	<u>1 716 375</u>
Cash flows from operating activities	<u>8 044 348</u>	<u>4 172 581</u>
INVESTMENT ACTIVITIES		
Revenue from sale of investments	43 404 311	35 908 246
Acquisition of investments	(54 791 654)	(32 323 684)
Acquisition of capital assets	(759 434)	(251 757)
Revenue from sale of capital assets	253	1 165
Cash flows for investment activities	<u>(12 146 524)</u>	<u>3 333 970</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(4 102 176)</u>	<u>7 506 551</u>
OPENING CASH AND CASH EQUIVALENTS	<u>11 540 856</u>	<u>4 034 305</u>
CLOSING CASH AND CASH EQUIVALENTS	<u>\$7 438 680</u>	<u>\$11 540 856</u>
 The breakdown of cash and cash equivalents is:		
Cash on hand	\$1 601 679	\$511 967
Short-term investments	<u>5 837 001</u>	<u>11 028 889</u>
	<u>\$7 438 680</u>	<u>\$11 540 856</u>

The notes and additional information are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS as at March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) was established under the *Act respecting the Société québécoise de récupération et de recyclage* (R.S.Q., c. S-22.01). The purpose of the Société is to promote, develop and foster the reduction, reuse, recovery and recycling of containers, packaging, materials or products with a view to resource conservation.

Income taxes

Under section 3 of its incorporating legislation, the Société is an agent of the State and, consequently, does not pay federal or provincial income tax.

The Société manages the following agreements and programs:

- the Programme québécois de gestion intégrée des pneus hors d'usage 2009-2012;
- the integrated management program for used tires and the program for emptying used tire storage sites in Québec for the fiscal years 2001-2008;
- agreements relating to the consignment, recovery and recycling of non-refillable beer and soft drink containers entered into pursuant to the *Act respecting the sale and distribution of beer and soft drinks in non-returnable containers* (R.S.Q., c. V-5.001);
- the agreement relating to the recovery of paint containers under the Regulation respecting the recovery and reclamation of discarded paint containers and paints;
- the agreement related to the recovery and reclamation of used oils under the Regulation respecting the recovery and reclamation of used oils, oil or fluid containers and used filters;
- the Programme gouvernemental d'aide financière à l'élaboration des plans de gestion des matières résiduelles aimed at financially supporting municipalities and regional municipalities in the elaboration of their management plans;
- the financial assistance program for social economy businesses working in the context of waste management plans promoting the participation of social economy businesses in the attainment of the environmental, social and economic objectives of the 1998-2008 Québec waste management policy;
- the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials;
- the Programme d'aide financière pour les centres de tri québécois 2009-2011.

2. MAIN ACCOUNTING POLICIES

The entity relies primarily on the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). Use of any other source of generally accepted accounting principles is consistent with it.

Use of estimates

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main items subject to estimate are the life-span of tangible fixed assets and the provision for the amounts needed to cover the deposit-refund scheme. The real results may differ from management's best estimates and assumptions.

Revenue reporting

Revenues are posted when earned and when measurement and recovery of the consideration are reasonably certain. Investment income is reported based on the number of days the investment is held during the fiscal year. Gains and losses on the sale of investments are established using the average cost method. The costs of transactions associated with the acquisition or sale of investments are included in the cost of investments acquired or treated as a reduction in proceeds from the sale of investments.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)**Net revenue on the deposit-refund scheme for non-refillable containers and amounts refundable**Agreement respecting the consignment, recovery and recycling of non-refillable soft drink containers

Pursuant to this agreement, a non-profit organization appointed by Québec's soft drink bottlers collects and refunds non-refillable containers and pays recovery incentives. Correspondingly, the deposits collected and refunded and the recovery incentives paid are not recorded on the Société's financial statements. The organization representing the members under this agreement, Boissons Gazeuses Environnement, must reimburse certain amounts paid by the Société or be reimbursed by the Société for certain amounts that it has spent.

Moreover, under the agreement, should a surplus arise from the annual operation of the system, Boissons Gazeuses Environnement remits to the Société 70% of the surplus and keeps 30%, which it must invest in its Programme d'amélioration des infrastructures de récupération. Depending on the recovery rate during the year of the containers covered by the agreement, the Société keeps a portion ranging from 50% to 80% of the surplus in a reserve for the repayment of possible deficits that might occur during the duration of the agreement. The remaining portion of the annual surplus remitted to the Société must be used primarily for activities related to information, awareness-raising and education, market and technological development, and incentives to promote and enhance the management of recovery and recycling of non-refillable containers.

Agreement respecting the consignment, recovery and recycling of non-refillable beer containers

Under this agreement, income from the consignment of the containers sold, the reimbursement of consigned containers and incentives to encourage recovery are recorded in the Société records according to the declarations submitted by parties to the agreement on non-refillable beer containers.

The parties to the agreement undertake to reimburse the Société the amount of the annual deficit (calendar year) resulting from the consignment system covering their containers (consignments collected and reimbursed, recovery incentives and management fees). When the calculated annual results produce a surplus, 67% of the surplus is remitted to the parties to the agreement. The balance must be used for the purposes of information, awareness-raising and education, recovery and recycling primarily from the standpoint of containers on which there are deposits and the development of markets and technologies for residual materials.

Under the agreements, the declarations are subject, among other things, to audits. The adjustments following the audits are, as the case may be, charged to income for the fiscal year during which they are noted.

The deferred income is transferred to the results when it is used for the purposes prescribed in the agreements. The amounts reimbursable pursuant to the agreements on containers on which there are deposits are established under the agreements described earlier.

Income and expenditure pertaining to the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials

The Société is authorized to retain not more than 10% of any amount that it receives, as a trustee, pursuant to the Regulation, which is intended to compensate the municipalities. This holdback is intended to compensate the Société for the management fees and other expenses related to the compensation program established by the Act and the Regulation. The income is recognized according to the percentage-of-completion accounting method, i.e. as the services or other expenses pertaining to the Regulation are incurred.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)
Capital assets

Capital assets are recorded at cost and amortized using the straight-line method, according to their probable life-span.

	<u>Duration</u>
Furniture and equipment	7 years
Data processing equipment	5 years
Leasehold improvements	Term of lease
Software	3 years
Data processing development	5 years

External financing

Contributions to tangible acquisitions of immovables linked to the system of compensation for municipal selective collection services are amortized at the same rate as the immovables to which they are related.

Depreciation of tangible fixed assets

When economic conditions indicate that a tangible fixed asset is no longer contributing to the Société's ability to provide goods and services or that the value of future economic benefits linked to the tangible fixed asset is less than its net book value, the cost of the tangible fixed asset is reduced to reflect the decrease in its value. The loss in value of tangible fixed assets is recorded as an expense in the income and asset statement.

Long-term investments

Securities and bonds are recorded at cost. Discounts and bond premiums are amortized in accordance with the straight-line method over the duration remaining for each security. The amortization of discounts and premiums is posted to investment income. Investment management fees are deducted from investment income. Any permanent decrease in value is deducted from the book value of investments and the loss is posted to the fiscal year's results.

Deferred Gouvernement du Québec transfers

Transfers for specific programs are deferred and posted to results as income in keeping with the expenses related to them.

Allowance for amounts to be provided in respect of the deposit-refund scheme

An allowance has been set up to provide the sums required to refund deposits on containers sold before March 31 that will be recovered after the end of the year or after the agreements expire. This allowance was established according to the recovery rates anticipated by management, after deducting deposits recorded on containers recovered derived from sales during the year. For the purposes of the allowance, the recovery rate for 5¢ containers has been set at 67.34% as at March 31, 2009 (2008: 66.19%), and at 81.79% for 10¢ containers (2008: 82.09%) and at 72.04% for 20¢ containers (2008: 76.55%).

Moreover, an allowance has been set up to provide the sums required to pay recovery incentives of \$0.02 for each container recovered by a party to the agreement as at March 31, which is claimed after the end of the year. This allowance was established according to the same rate as that used to calculate the allowance for the refund of deposits.

Retirement plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the RECYC-QUÉBEC lacks sufficient information to apply the accounting procedure for defined benefit-plans.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

2. MAIN ACCOUNTING POLICIES (cont'd)**Cash flows**

It is the Société's policy to present bank balances and investments that can easily be converted in the short term to a known amount of cash, whose value is not likely to change significantly under cash and cash equivalents.

3. ACCOUNTING CHANGES**Change in authoritative accounting pronouncements**

Since April 1, 2008, the Société has established its financial statements using the *Public Sector Accounting Handbook* of the Canadian Institute of Chartered Accountants (CICA). It previously used the CICA handbook for the private sector. The impact of the initial application of these new standards has been recognized retroactively with the restatement of the comparative financial statements. This change has no impact on the Société's results and assets.

The accounting conventions affected by the change of authoritative accounting pronouncements are described below.

Tangible fixed assets

Computer development and software are now presented as tangible fixed assets rather than intangible fixed assets.

Depreciation of tangible fixed assets

The decrease in value of tangible fixed assets is based on their capacity to provide goods or services or on the value of future economic benefits rather than an evaluation of unrealized future monetary flows that the tangible fixed asset will provide.

Restatement of the financial statements

The financial statements for the fiscal year ended March 31, 2008 were corrected to record income from the deposit-refund scheme on non-refillable containers in accordance with the new agreements concluded since January 1, 2007. Under these agreements, the income must be used for specific purposes according to the means that the Société deems to be appropriate, which led to the recording of \$1 045 202 in deferred income as at March 31, 2008. The impact of this restatement can be summarized as follows:

	<u>2008</u>
Equity	
Balance of assets already established	\$40 323 594
Deferred income on deposit-refund scheme	<u>(1 045 202)</u>
Restated balance of assets at the fiscal year end	<u>\$39 278 392</u>
Results	
Surplus already established of income over expenses	\$2 942,595
Income from the deposit-refund scheme on non-refillable containers	<u>(1 045 202)</u>
Restated surplus of income over expenses	<u>\$1 876 625</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

4. SHORT-TERM INVESTMENTS

Short-term investments, recorded at cost, represent discount notes of mutual investment funds, money market investment funds and bonds maturing within a year. The fair market value of temporary investments as at March 31, 2009 stands at \$5 862 211 (2008: \$11 076 621) and fixed interest rates vary from 4.25% to 5.25% (2008: 3.85% to 5.75%).

5. ACCOUNTS RECEIVABLE

	2009	2008
Green tax on tires	\$3 392 246	\$3 407 906
Surplus – soft drink consignment amounts	2 806 684	2 828 279
Beer consignment amounts	1 259 478	749 330
Accrued interest	653 138	658 874
Compensation for municipal services (Note 6)	544 225	456 288
Other	470 770	645 241
	<u>\$9 126 541</u>	<u>\$8 745 918</u>

6. RECEIVABLE FROM CERTIFIED FINANCING ORGANIZATIONS
Receivable from certified financing organizations

The Regulation respecting compensation for municipal services provided to recover and reclaim residual materials came into effect on March 1, 2005. Under the Regulation, enterprises must compensate the municipalities up to the equivalent of 50% of the total net cost of services that the municipalities provide to recover and recycle the categories of materials covered, i.e. containers and packaging, printed documents and print media. Under its mandate, the Société has accredited two certified financing organizations. Éco Entreprises Québec represents the containers and packaging and printed document categories while Recyclemédiás represents the print media category. Éco Entreprises Québec pays monetary compensation while Recyclemédiás provides compensation in the form of goods and services.

Under an order-in-council issued in March 2009 concerning the approval of the rate established by Éco Entreprises Québec in respect of the 2007 contributions and an agreement to establish the net costs of separate collection subject to compensation in 2007 and the applicable distribution criteria, the Société recorded, as at March 31, 2009, a balance receivable of \$43 707 629 (2008: \$3 078 000). Compensation totalling \$42 687 525 (2008: \$3 245 810) was recorded as being due to municipal bodies.

Cumulative excess amount of expenses related to the Société's mission on the amounts agreed upon

The excess amount of the cumulative expenses related to the Société's mission pursuant to the regulation respecting the cumulative amounts agreed upon, including the agreement reached during the 2007 fiscal year, has been recorded as a receivable and totals \$544 225 as at March 31, 2009 (2008: \$456 288).

7. LONG-TERM INVESTMENTS

	2009	2008
Bonds – 2.2% to 6.75% (2008 : 3.5% to 10.35%), maturing on various dates until October 2018.	<u>\$48 442 029</u>	<u>\$36 333 370</u>

As at March 31, 2009, the fair market value of long-term investments stands at \$49 577 664 (2008: \$37 114 729) and the management fees for the fiscal year's investments total \$121 943 (2008: \$107 119).

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

8. TANGIBLE CAPITAL ASSETS

	2009		2008
	Cost	Accumulated depreciation	Net
Furniture and equipment	\$593 004	\$434 902	\$158 102
Data processing equipment	485 877	304 289	181 588
Leasehold improvements	361 383	33 526	327 857
Software	185 954	132 030	53 924
Data processing development	653 031	314 531	338 500
	2 279 249	1 219 278	1 059 971
Minus: external financing	(354 912)		(354 912)
	<u>\$1 924 337</u>	<u>\$1 219 278</u>	<u>\$705 059</u>
			<u>\$329 384</u>

External financing is attributed to computer development and a Web portal under development for the management of residual material. The net book value of unamortized capital assets is \$354 912 \$.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	\$1 959 912	\$1 297 912
Non-refundable contributions – used-tire program	1 105 155	1 589 020
Consignment amounts and recovery incentives	132 187	498 346
Salaries and fringe benefits	545 951	476 428
Amounts collected in advance on contract	52 718	75 000
Deposit on contract	386 966	386 966
	<u>\$4 182 889</u>	<u>\$4 323 672</u>

10. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS**Government financial assistance program for the elaboration of residual material management plans**

Moreover, in previous fiscal years, the Société collected \$9 240 000 in Gouvernement du Québec subsidies under an Order-in-Council dated March 27, 2002 for the implementation of the Québec government financial assistance program for the development of waste management plans. At March 31, 2009, the amounts used totalled \$9 200 000.

Financial assistance program for social economy enterprises

Under an Order-in-Council dated March 30, 2005, the Société received a Gouvernement du Québec subsidy of \$2 273 675 for implementing the financial assistance program for social economy enterprises working in the context of waste management plans. The Société also committed to investing an additional \$3 400 000 for the same 3-year period. During the fiscal year, \$907 757 (2008: \$736 943) was used, \$479 211 (2008: \$371 910) from the government subsidy. Since the beginning, a total of \$4 197 532 has been invested, including \$1 946 803 from the government subsidy. The program ended on March 31, 2009. However, commitments remain (see Note 17) in respect of projects adopted whose terms of payment have not materialized.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

10. DEFERRED GOUVERNEMENT DU QUÉBEC TRANSFERS (cont'd)**Details of deferred Gouvernement du Québec transfers**

	2008	2007
Government assistance program for waste management plans	\$40 000	\$40 000
Financial assistance program for social economy enterprises	326 872	806 083
	<u>\$366 872</u>	<u>\$846 083</u>

11. AMOUNTS REFUNDABLE EN VERTU DES ENTENTES SUR LA CONSIGNE

	2009	2008
Amounts refundable to Boissons Gazeuses Environnement	\$3 627 485	\$2 153 073
Amounts refundable to brewers	1 184 015	1 175 728
	4 811 500	3 328 801
Less the short-term balance	<u>(1 994 018)</u>	<u>(1 914 661)</u>
	<u>\$2 817 482</u>	<u>\$1 414 140</u>

12. DEFERRED INCOME ON THE ENVIRONMENTAL TAX ON TIRES

The coming into force of the Act to amend the Highway Safety Code concerning the use of tires designed specifically for winter driving significantly affected the collection of the environmental tax on tires for the 2008-2009 fiscal year. An amount of \$2 718 612 representing this increase has been recorded as long-term deferred revenue. This deferred revenue will be recognized in the results of the fiscal year during which the funds are used for the prescribed purposes.

The Programme de vidage des lieux d'entreposage de pneus hors d'usage au Québec 2001-2008 ended on December 31, 2008. On April 29, 2009, RECYC-QUÉBEC was authorized by order-in-council to continue emptying the last major used tired storage site. In anticipation of the order-in-council, the disposal operations, normally provided for in the budget, were interrupted. In light of this factor, an equivalent amount under anticipated disposal operations of \$1 354 388 has been recorded as deferred revenue.

13. PROVISIONS FOR AMOUNTS TO BE PROVIDED IN RESPECT OF THE DEPOSIT-REFUND SCHEME

	2009	2008
For the reimbursement of the deposit-refund scheme	\$6 277 932	\$6 016 103
For the payment of recovery incentives	2 090 828	2 020 292
	<u>\$8 368 760</u>	<u>\$8 036 395</u>

14. FUTURE FRINGE BENEFITS

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP), Upper Management Retirement Plan (RRAS). These are inter-enterprise defined-benefit plan that include guaranteed payments on retirement and death.

The Société's contributions charged to the year-end statement total \$195 608 (2008: \$160 916). Its liability towards these Government plans is restricted to its employer contributions.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
as at March 31, 2009

15. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

16. CHANGES IN OPERATING ASSETS AND LIABILITIES

	2009	2008 Restated (Note 3)
Accounts receivable	\$(380 623)	\$2 312 834
Receivable from certified financing organizations	(40 629 629)	51 000 000
Prepaid expenses	6 297	(410)
Expenses due and accrued	(140 783)	(1 323 638)
Amounts due to municipal bodies	39 441 715	(47 514 190)
Deferred transfers from the Gouvernement du Québec	(479 211)	(611 910)
Amounts refundable under agreements concerning the agreements respecting the refund-deposit scheme	1 482 699	(303 767)
Deferred income from the environmental tax on tires	4 073 000	
Deferred income from the deposit-refund scheme	2 755 434	1 045 202
Provision for amounts to be provided in respect of the deposit-refund scheme	332 365	73 625
Deferred income in respect of the compensation program for municipal separate collection services		(1 768 529)
Provision for the contribution to the recovery infrastructure enhancement program		(1 192 842)
	<u>\$6 461 264</u>	<u>\$1 716 375</u>

17. COMMITMENTS

The Société is committed under long-term leases for rental of administrative offices. The current Montréal lease ends on October 31, 2017 and provision is made for an option at the discretion of the Société for an additional five years. The Québec City lease ended on March 31, 2012.

The rental expense for the fiscal year ended March 31, 2009 for administrative offices totalled \$415 875 (2008: \$344 732). Minimum future payments are:

2010	\$489 513
2011	489 513
2012	489 513
2013	375 000
2014	399 583
Subsequent years	<u>1 302 000</u>
	<u>\$3 545 122</u>

The financial assistance program for social economy enterprises working in the realm of residual material management plans ended March 31, 2009. However, the amounts that it was agreed to disburse according to certain conditions in respect of approved projects total \$693 098 as at March 31, 2009.

18. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

ADDITIONAL INFORMATION
for the year ended March 31, 2009

■ APPENDIX 1
NET REVENUE FROM CONSIGNMENT OF THROW-AWAY CONTAINERS

	2009	2008 Restated (Note 3)
Soft drinks and others		
Share of the surplus of the operations	\$1 403 342	\$1 414 140
Royalty and other income	559 662	532 339
Other consignment - net	407 686	621 136
	<u>2 370 690</u>	<u>2 567 615</u>
Beer		
Consignment amounts on containers sold	32 244 407	28 386 149
Reimbursement of consignments amounts	(24 100 206)	(21 825 426)
Recovery incentive premiums	(4 402 550)	(3 949 503)
	3 741 651	2 611 220
Amount repayable to brewers	(3 044 952)	(2 058 968)
Share of the surplus of the operations	696 699	552 252
Royalty	233 756	206 032
Recovery incentive	1 572 736	494 167
Recovered management fees	342 691	256 720
Other revenue	304 626	475
	<u>3 150 508</u>	<u>1 509 646</u>
Total before deferred income on consignment	5 521 198	4 077 261
Deferred income on consignment (Note 3)	(2 755 434)	(1 045 202)
	<u>\$2 765 764</u>	<u>\$3 032 059</u>

■ APPENDIX 2
GOUVERNEMENT DU QUÉBEC TRANSFERS

	2009	2008
Assistance for the development of residual waste management plans		\$240 000
Financial assistance for social economy enterprises	\$479 211	371 910
	<u>\$479 211</u>	<u>\$611 910</u>

■ APPENDIX 3
REVENUE FROM INDUSTRIAL ORGANIZATIONS

	2009	2008
Recovery of paint containers	\$187 977	\$189 209
Recovery of used oil	337 052	318 345
	<u>\$525 029</u>	<u>\$507 554</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)

ADDITIONAL INFORMATION (cont'd)
for the year ended March 31, 2009

■ **APPENDIX 4**

USED-TIRE PROGRAM CONTRIBUTION

	2009	2008
Transportation and stockpiling	\$10 720 734	\$9 257 624
Site emptying	6 086 110	8 681 110
Re-employment, recycling and energy use assistance	3 533 805	3 200 560
Discount for prepayment		150 000
	<u>\$20 340 649</u>	<u>\$21 289 294</u>

■ **APPENDIX 5**

COMPENSATION FOR MUNICIPAL SELECTIVE COLLECTION SERVICES

	2009	2008
Pilot projects and experiments	\$525 775	\$627 968
Direct administrative expenses	321 059	333 749
Compensation for municipal bodies	700 000	
	<u>\$1 546 834</u>	<u>\$961 717</u>

■ **APPENDIX 6**

OTHER NON-REFUNDABLE CONTRIBUTIONS

	2009	2008
Information, awareness and education	\$575 664	\$523 794
Pilot projects and experiments	417 524	230 336
	<u>\$993 188</u>	<u>\$754 130</u>

■ **APPENDIX 7**

OPERATING EXPENSES

	2009	2008
Rent, taxes and insurance	\$456 090	\$390 686
Professional fees and contractual services	452 268	194 777
Courier services and telecommunications	123 250	79 572
Travelling	130 779	114 921
Information highway	76 287	94 701
Equipment rental	20 554	21 349
Maintenance and repairs	50 448	46 618
Supplies and miscellaneous expenses	44 810	39 760
Representation, meetings and conferences	33 850	26 651
Training and upgrading	67 198	34 004
Subscriptions, documentation and assessments	20 337	16 124
Amortization of tangible capital assets	198 787	196 950
Gain/ loss on sale of tangible capital assets	(253)	(515)
Expenses related to the relocation of administrative offices	33 084	
	<u>\$1 707 489</u>	<u>\$1 255 598</u>

SOCIÉTÉ QUÉBÉCOISE DE RÉCUPÉRATION ET DE RECYCLAGE (RECYC-QUÉBEC)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) presented herewith were prepared by management and approved by its Board of Directors. The financial statements have been prepared according to the conventions and processes established by management, in accordance with Canadian generally accepted accounting principles and reflect the best judgements and estimates.

With the framework of its responsibilities, the Société's management maintains a system of internal accounting control to provide reasonable assurance that its assets are suitably safeguarded and its transactions are properly approved and accurately recorded on a timely basis and result in reliable, one-off financial statements. The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors, assisted by its audit committee, ensures that management fulfils its responsibilities from the standpoint of information and financial control. The audit committee meets with management and the auditor, periodically examines the financial statements and recommends their approval to the Board of Directors.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted accounting principles. The auditor's report specifies the nature and scope of the audit and presents his professional opinion on the accuracy of the financial statements.

Ginette Bureau
President and CEO

François Villemaire, CA
Acting Finance Director

Québec, July 17, 2009

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Société québécoise de récupération et de recyclage (RECYC-QUÉBEC) as at March 31, 2009 and the statements of operations and equity and cash flows for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of the operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, bearing in mind the retroactive application of changes made through the adoption of public sector accounting standards, explained in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, July 17, 2009

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)
(R.S.Q., c. S-20)

STATEMENT OF OPERATIONS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> (Restated, Note 3)
REVENUES FROM PUBLICATIONS AND SERVICES	\$13 139 842	\$12 776 570
COST OF PUBLICATIONS AND SERVICES (Note 6)	<u>8 560 698</u>	<u>8 269 125</u>
GROSS MARGIN	4 579 144	4 507 445
OVERHEAD EXPENSES (Note 7)	<u>4 390 936</u>	<u>4 458 237</u>
NET REVENUES	<u><u>\$188 208</u></u>	<u><u>\$49 208</u></u>

The notes are an integral part of these financial statements.

STATEMENT OF CUMULATED SURPLUS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u> (Restated, Note 3)
OPENING CUMULATED SURPLUS ALREADY ESTABLISHED	\$2 000 000	\$2 000 000
ADJUSTMENT OF THE PROVISION FOR SICK LEAVE (Note 3)	<u>(189 876)</u>	<u>(239 084)</u>
ADJUSTED OPENING CUMULATED SURPLUS	1 810 124	1 760 916
NET PROFIT	<u>188 208</u>	<u>49 208</u>
CLOSING CUMULATED SURPLUS	<u><u>\$1 998 332</u></u>	<u><u>\$1 810 124</u></u>

The notes are an integral part of these financial statements.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

BALANCE SHEET
as at March 31

	2009	2008 (Restated, Note 3)
ASSETS		
Current assets		
Cash	\$2 099 902	\$2 242 102
Temporary investments, rates of 2.74% and 2.83%	1 019 972	
Accounts receivable	1 727 228	1 851 950
Inventory	124 958	105 724
Overpayment to the Gouvernement du Québec (Note 3)	231 572	124 864
Prepaid expenses	235 211	241 334
	<u>5 438 843</u>	<u>4 565 974</u>
Capital assets (Note 9)	<u>1 412 840</u>	<u>1 841 504</u>
	<u><u>\$6 851 683</u></u>	<u><u>\$6 407 478</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$1 881 843	\$1 718 736
Deferred revenue	994 299	975 530
	<u>2 876 142</u>	<u>2 694 266</u>
Provision for sick leave (Notes 3 and 14)	980 432	903 831
Deferred lease inducements	996 777	999 257
	<u>4 853 351</u>	<u>4 597 354</u>
CUMULATED SURPLUS (Notes 8 and 12)	<u>1 998 332</u>	<u>1 810 124</u>
	<u><u>\$6 851 683</u></u>	<u><u>\$6 407 478</u></u>
COMMITMENTS (Note 15)		

The notes are an integral part of these financial statements.

On behalf of the Société,
Guy Mercier
Lucie Lauzière

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, the Société québécoise d'information juridique (SOQUIJ) was established under the *Act respecting the Société québécoise d'information juridique* (R.S.Q., chapter S-20), to promote research, process and develop legal information in order to improve its quality and accessibility to the general public.

Under the *Income Tax Act* (R.S.C.1985, c. 1, 5th Supplement) and the *Taxation Act* (R.S.Q., c. I-3), the Société does not pay income tax.

2. ACCOUNTING POLICIES

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to use estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. Real results may differ from these estimates. The main items subject to estimates are the life-span of capital assets and the provision for sick leave. The statement of cash flows is not shown as it would not provide any additional useful information on cash flows during the year.

Revenue reporting

Revenue from service delivery and sales was recorded when the following conditions had been met:

- There was convincing evidence of the existence of an agreement;
- Delivery occurred and services were rendered;
- The selling price is determined or can be determined;
- Recovery is reasonably certain.

Instruments financiers

Financial instruments are reported at fair value the date of the transaction. When initially recognized, a financial instrument's fair value generally corresponds to the transaction price, that is, the fair value of the consideration given or received.

Cash

Cash includes cash, cash funds and investments whose term is initially set at three months or less. Cash on hand is held for transaction purposes and posted at fair value, which is equivalent to cost.

Other financial instruments

Temporary investments are classified under "Assets held for transaction purposes" and are evaluated at fair value. The fair value of temporary investments is determined based on market prices. Any change in fair value is recorded in the results of the fiscal year during which the changes occur. Temporary investments comprise guaranteed investment certificates maturing in August 2009 at the latest.

Debtors and overpayment to the Gouvernement du Québec are considered in the category "Loans and accounts receivable" and accounts payable and accrued liabilities are classified in the category "Other financial liabilities".

Any subsequent remeasurement if these financial instruments are measured at cost after amortization using the effective interest rate method. Generally, this measurement corresponds to cost.

Inventory

The inventory of publications is valued at cost or net realizable value, whichever is less. The cost of each publication includes direct design and publishing costs (labour, materials and printing) and related indirect costs.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)
Capital assets

Capital assets are recorded at cost and amortized using the straight-line method and the following durations:

Leasehold improvements	Duration of lease (*)
Office furniture	5 years
Data processing equipment	3 years
Data processing system	7 years (**)

(*) Leasehold improvements are amortized over the duration of the lease, until December 31, 2021.

(**) The data processing system is amortized over 7 years as of the date it became operational, i.e. January 1, 2004 to December 31, 2010. Acquisitions related to this data processing system are amortized over the period remaining.

Immovables undergo a depreciation test when events or changes in situation indicate that it may not be possible to recover their book value using future unactualized cash flows directly associated with their use and eventual transfer. The decline in value represents the difference between their book value and the fair value of the assets depreciated and is posted to results, where applicable.

Lease incentives

Lease incentives granted the Société by the lessor, under a long-term lease for administrative office rental, are posted and amortized over the duration of the lease.

Deferred revenue

Receipts from subscriptions and other publications are deferred and then transferred to operations when the publications are shipped.

Future fringe benefits

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Société lacks sufficient information to apply the accounting procedure for defined-benefit plans.

Provision for sick leave

The Société has a sick leave accumulation program, which engenders long-term obligations whose costs the Société fully assumes.

The sick leave accumulation program allows employees to accumulate the unused sick leave days to which they are entitled each year and to cash out the leave at 50% in the event of termination of employment, retirement or death, up to a maximum amount representing the equivalent of 66 days. The employees may also choose to use the sick leave accumulated as fully paid leave days in the event of early retirement. The program is not now subject to capitalization to cover payment.

The obligations of the sick leave accumulation program are increasing as the employees render services to the Société. The value of this obligation is established by means of a method that breaks down the cost of this program over the duration of the active careers of the employees.

The long-term obligations stemming from sick leave accumulated by the employees are now evaluated on an actuarial basis by means of a simplified estimating method that relies on the most probable assumptions determined by the government. These assumptions are re-evaluated each year. The corresponding liabilities and expenses that result therefrom are accounted for on the basis of the method of acquisition of these fringe benefits by the employees, i.e. according to the accumulation and use by the employees of sick days.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO THE FINANCIAL STATEMENTS (continued)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Subsequent evaluations and estimates**

The sick leave accumulation program has been updated, based, in particular, on the following long-term estimates and economic assumptions as at March 31, 2009:

Average indexation rate	2.66 %
Capitalization rate	4.70% and 4.90 %
Average remaining service period of active employees	11 years

3. ADJUSTMENT OF THE PROVISION FOR SICK LEAVE

Previously, the Société did not effect a formal actuarial valuation to establish the provision for sick leave recorded in liabilities.

Henceforth, the calculations of the provision for sick leave will integrate variables such as a present value factor, the average retirement age and an overall adjustment factor that combines the cost of employees' benefits and the termination rate. Management is of the opinion that the new calculations provide more accurate information on the provision for sick leave.

The retroactive application of these new calculations has increased (decreased) the following items in the financial statements:

Balance sheet	
Net income payable to the Gouvernement du Québec	(106 708)
Overpayment to the Gouvernement du Québec	124 864
Provision for sick leave	421 448
Opening cumulated surplus	(239 084)
Results	
Cost of publications and services –	
Salaries, fringe benefits and corporate charges	43 699
Administrative expenses –	
Salaries, fringe benefits and corporate charges	13 801
Net income for the fiscal year	(57 500)

4. ADOPTION OF NEW ACCOUNTING STANDARDS

During the fiscal year, the Société applied the new recommendations of the Canadian Institute of Chartered Accountants concerning the following new chapters: 1535, "Capital Disclosures," 3862, "Financial Instruments – Disclosure," and 3863, "Financial Instruments – Presentation." Chapters 3862 and 3863 seek to inform users to enable them to evaluate the importance of financial instruments from the standpoint of the entity's financial position and financial performance and to evaluate the nature and scope of the risks stemming from the financial instruments to which the entity is exposed and the manner in which it manages such risks. Chapters 3862 and 3863 replace chapter 3861 of the handbook, entitled "Financial Instruments – Disclosure and Presentation." These chapters modify and broaden the requirements pertaining to disclosure but maintain the same requirements as regards presentation. Chapter 3031 prescribes the accounting treatment of inventories, in particular the determination of cost and its subsequent accounting in expenses, including any depreciation up to the net realizable value.

Chapters 3862 and 3863 pertain specifically to disclosure and thus have not had any impact on the Société's results. As for Chapter 3031, it has not significantly affected the financial statements from the standpoint of the application of this new standard.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**5. FUTURE CHANGES IN THE ACCOUNTING POLICIES**

In November 2007, CICA approved the new Chapter 3064, "Goodwill and Intangible Assets" and amended Chapter 1000, "Financial Statement Concepts," which recommends the definition of an asset and the recognition criteria for an intangible asset and intangible assets generated internally. The items that no longer conform to the definition of an asset are not recognized as assets. This new norm will come into force for fiscal years opening as from October 1, 2008 and will be applied on April 1, 2009. The Société has not yet assessed the impact of this norm on its financial statements.

6. COST OF PUBLICATIONS AND SERVICES

	2009	2008 (Restated, Note 3)
Salaries, fringe benefits and corporate charges	\$6 232 571	\$5 806 713
Amortization of capital assets	455 511	532 442
Formatting and printing	331 900	341 199
Equipment rental, maintenance and supplies	371 772	340 458
Professional fees	285 728	334 325
Advertising	231 743	318 019
Communications and shipping	213 198	210 639
E-data warehouse	256 220	204 000
Royalties	135 819	125 761
Inventory variation	(19 234)	23 513
Travelling and representation	53 463	19 341
Rent, taxes and insurance	12 007	12 715
	<u>\$8 560 698</u>	<u>\$8 269 125</u>

7. OVERHEAD EXPENSES

	2009	2008 (Restated, Note 3)
Salaries, fringe benefits and corporate charges	\$2 177 726	\$2 013 417
Rent, municipal taxes and insurance	945 652	928 899
Advertising	351 127	426 736
Contributions to organizations	310 000	300 000
Professional fees	111 346	185 089
Staff training	70 022	139 191
Amortization of capital assets	128 821	136 753
Travelling and representation	107 389	92 644
Equipment rental, maintenance and supplies	67 564	83 076
Documentation	51 623	61 675
Communications and shipping	29 730	44 038
Other	39 936	46 719
	<u>\$4 390 936</u>	<u>\$4 458 237</u>

The amortization for the fiscal year of lease inducements related to the allowances received is \$61 874 (2008: \$61 874) and is recorded as a reduction of the rental expense. Moreover, the amortization of the rental expense on a straight-line basis results in an increase in the expense of \$59 394 (2008: \$59 394).

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. CUMULATED SURPLUS**

The net revenues for the Société's fiscal year must be paid into the Consolidated Revenue Fund of the Gouvernement du Québec, after constituting a working fund. This amount, determined by the Government, was increased to \$2 000 000.

9. CAPITAL ASSETS

	2009		
	Cost	Accumulated surplus	Net
Leasehold improvements	\$634 082	\$133 084	\$500 998
Office furniture	771 838	579 262	192 576
Data processing equipment	3 387 605	3 094 863	292 742
Data processing system	1 494 760	1 068 236	426 524
	<u>\$6 288 285</u>	<u>\$4 875 445</u>	<u>\$1 412 840</u>
	2008		
	Cost	Accumulated surplus	Net
Leasehold improvements	\$634 082	\$83 178	\$550 904
Office furniture	770 748	488 794	281 954
Data processing equipment	3 233 027	2 894 632	338 395
Data processing system	1 494 760	824 509	670 251
	<u>\$6 132 617</u>	<u>\$4 291 113</u>	<u>\$1 841 504</u>

Acquisitions of capital assets for the fiscal year stand at \$155 668 (2008: \$264 496), of which \$23 006 (2008: \$15 432) appears in "Accounts payable and accrued liabilities."

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Salaries, fringe benefits and corporate charges	\$1 198 055	\$1 129 242
Other payables and accrued expenses	683 788	589 494
	<u>\$1 881 843</u>	<u>\$1 718 736</u>

11. FINANCIAL INSTRUMENTS**Fair value**

The fair value of the short-term financial instruments equals their book value given that they mature in the near future.

Credit risk

The book value of financial assets represents the entity's maximum exposure to credit risk.

SOQUIJ sells publications and services to many clients, including government departments, educational establishments and agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec. The Société assesses its clients' credit on an ongoing basis. At March 31, 2009 and 2008, no client represented more than 10% of total debtors.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

11. FINANCIAL INSTRUMENTS (cont'd)**Credit risk (cont'd)**

An analysis of the age of financial assets can be broken down as follows:

Age of accounts receivable	2009		
	Gross value	Loss in value	Net value
Not overdue	\$644 487	\$314	\$644 173
Overdue 0 to 30 days	140 567	1 087	139 480
Overdue 31 to 120 days	23 553	2 442	21 111
Overdue 121 days to over one year	20 593	15 702	4 891
	<u>\$829 200</u>	<u>\$19 545</u>	<u>\$809 655</u>

Age of accounts receivable	2008		
	Gross value	Loss in value	Net value
Not overdue	\$682 935	\$837	\$682 098
Overdue 0 to 30 days	205 481	525	204 956
Overdue 31 to 120 days	120 314	2 165	118 149
Overdue 121 days to over one year	34 480	12 127	22 353
	<u>\$1 043 210</u>	<u>\$15 654</u>	<u>\$1 027 556</u>

The change in the provision for uncollectible losses can be broken down as follows:

	2009	2008
Opening balance	\$15 654	\$8 919
Loss of value recorded	8 543	12 884
Reversal of a provision	<u>(4 652)</u>	<u>(6 149)</u>
Closing balance	<u>\$19 545</u>	<u>\$15 654</u>

12. CAPITAL DISCLOSURES

The Société defines its capital as the cumulated surplus.

Pursuant to an order-in-council of the Gouvernement du Québec, the surplus of the Société's revenues over its expenses for a fiscal year must be paid into the Consolidated Revenue Fund after the establishment of a working capital fund, the maximum amount of which has been set at \$2 000 000.

The Société is not subject to any other requirement in respect of capital by an external source.

The Société manages its capital by husbanding its revenues, expenses, assets, liabilities, investments and other financial transactions in order to ensure that it effectively achieves the purposes stipulated in its enabling legislation.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

13. RELATED PARTY TRANSACTIONS

The Société is related party transactions disclosed in its financial statements and recorded at exchange value, the Société is a related party to all government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by the Gouvernement du Québec. The Société did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions, which are reported at the exchange value concluded by the parties, are not shown separately in the financial statements.

The Société also has a service exchange agreement with the Ministère de la Justice du Québec. The value of these services cannot be reasonably estimated.

14. FUTURE FRINGE BENEFITS**Pension plans**

Société staff participates in the Government and Public Employees Retirement Plan (RREGOP) or Management Personnel Retirement Plan (MPRP). These are inter-enterprise defined-benefit plans that include guaranteed payments on retirement and death.

At January 1, 2008, the agency's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP and RPSO from 7.78% to 10.54%.

The Société's contributions charged to the year-end statement totalled \$432 330 (2008: \$355 801). Its liability towards this Government plan is restricted to its employer contributions.

Provision for long-term sick leave

	2009	2008 (Restated, Note 3)
Opening balance	\$903 831	\$801 081
Annual expenses	111 513	130 129
Benefits paid	(34 912)	(27 379)
Closing balance	<u>\$980 432</u>	<u>\$903 831</u>

The provision for sick leave payable in the short term totalling \$62 949 (2008: \$63 392) is included under Accounts payable and accrued liabilities.

15. COMMITMENTS

The Société is committed to long-term leases for office space, warehousing and equipment, expiring on various dates until December 2021. Minimum lease payments for the coming fiscal years are:

2010	\$1 331 840
2011	857 771
2012	856 572
2013	856 572
2014	856 572
2015 and subsequent years	<u>6 940 046</u>
	<u><u>\$11 699 373</u></u>

16. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**MANAGEMENT'S REPORT**

The financial statements of the Société québécoise d'information juridique (SOQUIJ) were prepared by management, which is responsible for their preparation, presentation and the significant judgements and estimates included therein, and for choosing appropriate accounting policies that comply with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis and result in reliable financial statements.

The Société recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors must oversee the manner in which management performs its financial reporting duties, and has approved the financial statements.

The Auditor General of Québec has audited the Société's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the Board of Directors to discuss any matter related to the audit.

Claude Paul-Hus
Director General

Yves Boulanger
Accounting Coordinator

Montréal, May 22, 2009

SOCIÉTÉ QUÉBÉCOISE D'INFORMATION JURIDIQUE (SOQUIJ)**AUDITOR'S REPORT**

To the National Assembly

I have audited the balance sheet of the Société québécoise d'information juridique (SOQUIJ) as at March 31, 2009 and the statements of operations and cumulated surplus for the year then ended. These financial statements are the responsibility of the Société's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Société's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Montréal, May 22, 2009

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)
(R.S.Q., c. S-12.01)

STATEMENT OF OPERATIONS
for the year ended August 31, 2009

	2009 (12 months)	2008 (17 months) (Note 3)
REVENUES		
Gouvernement du Québec subsidies		
Operations	\$55 192 999	\$69 423 580
Repayment of long-term debt	254 415	254 415
Interest on long-term debt	618 119	1 446 291
Interest on short-term debt	311 093	781 088
Transfer of deferred subsidies (Note 14)	3 492 023	3 440 820
Others	3 220 813	2 412 949
Canal Savoir	1 000 000	
	<u>64 089 462</u>	<u>77 759 143</u>
Sales, services and other revenue	<u>17 281 482</u>	<u>19 583 906</u>
	<u>81 370 944</u>	<u>97 343 049</u>
EXPENSES (Note 5)		
Programs and new media	41 982 617	46 506 988
Legal affairs, human resources and technical services	12 386 022	16 709 606
Administration	9 174 132	12 755 137
Grid, broadcasting and promotion	6 920 589	8 226 555
Regions, partnerships, institutional affairs	2 510 585	3 566 587
Sales, financing and marketing	1 713 529	1 982 261
Canal Savoir	989 156	159 830
Amortization of capital assets	4 698 070	5 718 769
Financial expenses (Note 6)	958 439	2 252 763
	<u>81 333 139</u>	<u>97 878 496</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE THE FOLLOWING ITEM	37 805	(535 447)
Restructuring costs (Note 4)	<u>254 186</u>	<u>1 121 360</u>
EXCESS OF EXPENSES OVER REVENUES	<u><u>\$(216 381)</u></u>	<u><u>\$(1 656 807)</u></u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

CUMULATED DEFICIT
for the year ended August 31, 2009

	2009 <u>(12 months)</u>	2008 <u>(17 months)</u> (Note 3)
OPENING BALANCE, ALREADY ESTABLISHED	\$(7 657 252)	\$(6 001 565)
Restatement Adoption of public-sector accounting standards (Note 3)	<u>174 439</u>	<u>175 559</u>
Re-worked opening balance	(7 482 813)	(5 826 006)
Excess of expenses over revenues	<u>(216 381)</u>	<u>(1 656 807)</u>
CLOSING CUMULATED DEFICIT	<u><u>\$(7 699 194)</u></u>	<u><u>\$(7 482 813)</u></u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

BALANCE SHEET
as at August 31, 2009

	2009	2008 (Note 3)
ASSETS		
Cash and cash equivalents (Note 15)	\$21 689 560	\$19 431 151
Accounts receivable	4 704 564	4 148 571
Gouvernement du Québec subsidies receivable (Note 7)	2 671 294	2 988 738
Programs produced and in production	353 354	397 535
Broadcasting and distribution rights and participation in outside productions	40 745 587	41 691 385
Production and technical supplies	472 436	488 010
Prepaid expenses	362 382	227 950
	<u>70 999 177</u>	<u>69 373 340</u>
Long-term investment (Note 8)	2 759 842	2 759 842
Gouvernement du Québec subsidies receivable (Note 7)	30 351 977	22 005 324
Capital assets (Note 9)	<u>26 548 921</u>	<u>20 853 333</u>
	<u><u>\$130 659 917</u></u>	<u><u>\$114 991 839</u></u>
LIABILITIES		
Short-term borrowings (Note 10)	\$22 767 397	\$17 821 102
Accounts payable and accrued liabilities (Note 11)	8 596 175	6 300 356
Broadcasting and distribution rights and participation in outside productions – payable	29 252 696	29 346 862
Instalments on long-term debt due within one year (Note 12)	2 709 289	2 176 893
Deferred revenue (Note 14)	37 267 371	37 705 904
	<u>100 592 928</u>	<u>93 351 117</u>
Long-term debt (Note 12)	13 858 080	11 243 411
Restructuring costs payable (Note 4)	129 696	474 264
Gouvernement du Québec advance (Note 13)	2 750 000	2 750 000
Deferred revenue (Note 14)	<u>21 028 407</u>	<u>14 655 860</u>
	<u>138 359 111</u>	<u>122 474 652</u>
CUMULATED DEFICIT	<u>(7 699 194)</u>	<u>(7 482 813)</u>
	<u><u>\$130 659 917</u></u>	<u><u>\$114 991 839</u></u>

COMMITMENTS (Note 16)

The notes are an integral part of these financial statements.

On behalf of the Board of Directors,
Jean Lamarre
Louise Martel

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)STATEMENT OF CASH FLOWS
for the year ended August 31, 2009

	2009 (12 months)	2008 (17 months) (Note 3)
OPERATING ACTIVITIES		
Excess of expenses over revenues	\$(216 381)	\$(1 656 807)
Items not affecting liquid assets:		
Amortization of capital assets	4 698 070	5 718 769
Transfer of deferred revenue	(3 492 023)	(3 440 820)
Loss on sale of capital assets	9 689	30 632
	<u>999 355</u>	<u>651 774</u>
Change in non-cash items related to operations (Note 15)	<u>11 915 694</u>	<u>34 819 692</u>
Cash flows related to operating activities	<u>12 915 049</u>	<u>35 471 466</u>
FINANCING ACTIVITIES		
Gouvernement du Québec subsidies receivable	(8 346 653)	(4 322 885)
Increase in short-term borrowings	10 246 295	14 789 604
Repayment of short-term borrowings	(5 300 000)	(3 567 000)
Increase in long-term debt	5 323 958	3 584 433
Long-term debt repayment	<u>(2 176 893)</u>	<u>(7 473 175)</u>
Cash flows related to financing activities	<u>(253 293)</u>	<u>3 010 977</u>
INVESTMENT ACTIVITIES		
Acquisition of capital assets	(10 403 347)	(11 206 129)
Revenues from sale of capital assets	<u> </u>	<u>157 409</u>
Cash flows related to investment activities	<u>(10 403 347)</u>	<u>(11 048 720)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>2 258 409</u>	<u>27 433 723</u>
OPENING CASH AND CASH EQUIVALENTS (DEFICIENCY)	<u>19 431 151</u>	<u>(8 002 572)</u>
CLOSING CASH AND CASH EQUIVALENTS (Note 15)	<u><u>\$21 689 560</u></u>	<u><u>\$19 431 151</u></u>

The notes are an integral part of these financial statements.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2009

1. CONSTITUTION AND PURPOSE

A legal person within the meaning of the Civil Code, Télé-Québec was established by the *Act respecting the Société de télévision du Québec* (R.S.Q., c. S-12.01) to operate an educational and cultural television broadcasting service and service for producing and disseminating audiovisual, multimedia and television broadcasts.

Change in date of fiscal year-end

Section 20 of the *Act to amend the Act respecting the Société de télédiffusion du Québec*, which came into effect on December 4, 2007, henceforth sets August 31 of each year as the date of Télé-Québec's fiscal year-end.

2. ACCOUNTING POLICIES

To prepare its financial statements, Télé-Québec gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook and use of any other source of generally accepted accounting principles (GAAP) used is consistent with it. Note 3 discusses the impacts of adopting these public-sector standards. Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which estimates were used are the service life of TV broadcasting and cablecasting rights and participation in outside productions and capital assets. Real results may differ from these estimates.

Revenue reporting

Subsidies

Subsidies are posted as revenue in the fiscal year in which the corresponding expenditure occurs. Subsidies receivable for capital assets and their maintenance are recorded in the fiscal year in which Télé-Québec obtained the funding or performed the work related to these subsidies.

Sales, services and other revenue

Sales, services and other revenue are posted when there is convincing evidence of an agreement that the services have been rendered, that the price has been, or can be, determined and that encashment is reasonably certain.

Programs produced and in production

Programs produced and in production are posted at average cost, which includes the direct cost of supplies and services in addition to the share of labour costs and overhead for each program. The average cost for a given program is charged to operations when the program is initially broadcast or if it is declared unusable.

Broadcasting and distribution rights and participation in outside productions

Broadcasting and distribution rights for audiovisual material are generally acquired for five years. They are capitalized then posted to operations based on the number of broadcasts and the following, except where they are posted based on the considerations attached to these rights:

- 70% for the first broadcast;
- 30% for the second broadcast;

Rights on films deemed unusable are written off once the decision has been made.

Télé-Québec's participation in outside productions and the attendant rights are deferred and then posted in full to operations when the program is first broadcast, except where they are posted based on the considerations attached to these rights.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

August 31, 2009

2. ACCOUNTING POLICIES (cont'd)**Production and technical supplies**

The inventory of production and technical supplies is posted at cost or net realization value, whichever is lower. Cost is calculated using the first in-first out (FIFO) method.

Long-term investments

Long-term investments are reported at cost minus any permanent decline in value.

Capital assets

Capital assets are recorded at cost.

The antenna array includes buildings, materials, engineering services, infrastructures, direct labour costs, interest charges on interim financing during construction and the attendant overhead.

Capital assets are amortized using the straight-line method and the following rates:

	<u>Rate</u>
Antenna array	5%
Improvements to antenna array	10%
Technical equipment	10%
Furniture and fixtures	10%
Data processing equipment	20%
Software	33%
Automotive equipment	20%
Leasehold improvements	Term of lease, maximum 5 years
Grouping of installations:	
Technical equipment	6.67%
Furniture and fixtures	6.67%
Leasehold improvements	Term of lease, maximum 15 years

Capital asset depreciation

When market conditions show that a capital asset no longer contributes to Télé-Québec's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. Capital assets' decline in value is posted to expenses in the statement of operations.

Cash and cash equivalents

Télé-Québec's policy consists in presenting bank balances and short-term investments maturing no later than three months after their acquisition date under cash and cash equivalents.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-employer defined-benefit plans, given that Télé-Québec lacks sufficient information to apply the accounting procedure for defined-benefit plans.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009

3. CHANGES IN ACCOUNTING POLICIES**Adoption of the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook**

At the Government's request, Télé-Québec has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). Télé-Québec chose to keep the same financial statement presentation. These new standards were applied retroactively and pas fiscal years reworked. The accounting policies affected by this change in accounting framework are described below.

Long-term investments

All long-term investments are reported at cost minus any permanent decline in value while previously investments were considered satellite corporations and reported at consolidation value. This change in accounting policy, applied retroactively, increased (decreased) the following items:

	<u>2008</u>
Balance sheet	
Long-term investments	\$174 439
Cumulated deficit	(174 439)
Operations	
Excess of expenses over revenues	1 120

Financial instruments

Information related to financial instruments was removed since the standards governing them do not apply under public-sector standards.

Non-monetary operations

Non-monetary operations were reported at cost whereas previously they were posted at fair value. This change in accounting policy, applied retroactively, decreased the following items:

	<u>2008</u>
Revenues – Sales, services and other revenue	\$(616 509)
Expenses – Sales, financing and marketing	(616 509)

4. RESTRUCTURING COSTS

During fiscal 2009, Télé-Québec posted expenses of \$254 186 (2008: \$1 121 360) to severance pay and the related costs, following the Board of Directors' adoption of a plan to reduce staff numbers. Disbursements are expected to total \$7 941 317, with \$1 010 071 (2008: \$3 274 213) disbursed in the fiscal year ending August 31, 2009. Télé-Québec posted a provision for compensation payable \$585 676 (2008: \$1 341 562). The portion representing disbursements to be paid during the fiscal year ending August 31, 2010, i.e. \$455 980 (2008: \$867 298), was posted to "Accounts payable and accrued liabilities".

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009

5. EXPENSES BY CATEGORY

	2009 <u>(12 months)</u>	2008 <u>(17 months)</u> (Note 3)
Salaries and fringe benefits	\$21 290 051	\$28 851 302
Transportation and communications	3 836 959	4 243 329
Professional, administrative and other services	5 089 794	6 324 230
Rent	5 839 140	8 556 018
Materials and supplies	1 866 283	2 670 467
Broadcasting and distribution rights	35 821 102	37 551 883
Amortization of capital assets	4 698 070	5 718 769
Direct expenses – independent productions	827 305	1 403 946
Direct expenses – service delivery	23 713	40 042
Financial expenses	958 439	2 252 763
Accounts receivable written off	39 257	76 555
Canal Savoir	989 156	159 830
Loss on sale of capital assets	9 689	30 632
	<u>81 288 958</u>	<u>97 879 766</u>
Programs produced and in production, participation in outside productions – change for the year	<u>44 181</u>	<u>(1 270)</u>
	<u><u>\$81 333 139</u></u>	<u><u>\$97 878 496</u></u>

6. FINANCIAL EXPENSES

	2009 <u>(12 months)</u>	2008 <u>(17 months)</u>
Interest on short-term borrowings		
Financial institutions	\$29 227	\$25 384
Financing Fund	311 093	781 088
Interest on long-term debt – Financing Fund	<u>618 119</u>	<u>1 446 291</u>
	<u><u>\$958 439</u></u>	<u><u>\$2 252 763</u></u>

7. GOUVERNEMENT DU QUÉBEC SUBSIDIES RECEIVABLE

Short-term Gouvernement du Québec subsidies receivable correspond to accrued interest, and repayment of the capital payable on the long-term debt in the next fiscal year and the balance receivable on subsidies linked to specific projects.

The long-term portion represents the balance of Gouvernement du Québec commitments related to capital assets and their maintenance, minus capital repayments already made on long-term debt and to be made in the coming fiscal year.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009

8. LONG-TERM INVESTMENTS

	2009	2008 (Note 3)
Placement ARTV	\$2 750 000	\$2 750 000
Placement TV5 Monde	9 842	9 842
	<u>\$2 759 842</u>	<u>\$2 759 842</u>

Placement ARTV

Télé-Québec holds 23.70 % of shares in a corporation whose main activity is to maintain a French-language television service on arts and culture.

Placement TV5 Monde

Télé-Québec holds 4.44% of shares in a corporation whose main activity is signal management.

9. CAPITAL ASSETS

	2009			2008
	Cost	Accumulated depreciation	Net	Net
Antenna array, including improvements	\$32 428 475	\$27 129 229	\$5 299 246	\$4 801 166
Technical equipment	32 883 436	17 594 766	15 288 670	10 901 727
Furniture and fixtures	1 390 267	1 199 634	190 633	247 831
Data processing equipment and software	9 979 832	6 629 381	3 350 451	3 281 967
Automotive equipment	761 704	708 803	52 901	79 396
Leasehold improvements	5 197 889	2 855 323	2 342 566	1 141 940
	<u>82 641 603</u>	<u>56 117 136</u>	<u>26 524 467</u>	<u>20 454 027</u>
Grouping of installations:				
Technical equipment	4 467 794	4 443 340	24 454	211 266
Furniture and fixtures	653 332	653 332		24 942
Leasehold improvements	4 272 508	4 272 508		163 098
	<u>9 393 634</u>	<u>9 369 180</u>	<u>24 454</u>	<u>399 306</u>
	<u>\$92 035 237</u>	<u>\$65 486 316</u>	<u>\$26 548 921</u>	<u>\$20 853 333</u>

10. SHORT-TERM BORROWINGS

	2009	2008
Loans from Financing Fund	<u>\$22 767 397</u>	<u>\$17 821 102</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

August 31, 2009

10. SHORT-TERM BORROWINGS (cont'd)

Télé-Québec is authorized under a Gouvernement du Québec order-in-council to set up a borrowing system allowing it to contract short-term borrowings or borrow on a credit line from financial institutions or the Minister of Finance, acting as Financing Fund manager, or long-term borrowings from the latter up to a total of \$53 682 447 for the following:

	2009
Asset maintenance and digitization ¹	\$27 682 447
Modernization	10 000 000
Credit line	16 000 000
	<u>\$53 682 447</u>

1. This \$53 682 447 includes \$5 353 000 used to issue a new long-term note in the fiscal year ended August 31, 2009.

The Gouvernement du Québec committed to paying Télé-Québec the amounts required to help cover performance of its obligations should it not be able to do so for a short-term Financing Fund borrowing. Amounts withdrawn from the Financing Fund bear interest at the average one-month bank acceptance rates plus 0.3% in lieu of issuing and management costs. The interest rate was 0.70% at August 31, 2009 (3.42% at August 31, 2008).

Télé-Québec also has credit with a financial institution that is renewed annually on February 28, 2010. At August 31, 2009, the maximum amount Télé-Québec could borrow was \$16 000 000. Sums borrowed bear interest at the prime rate when the credit margin is used and at the rate of one-month bank acceptances, plus a 0.3% margin that replaces the issuing and management costs in the case of a bank acceptance. At August 31, 2008 and 2009, Télé-Québec had not borrowed using these credit facilities.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Accounts payable and accrued liabilities	\$4 178 167	\$2 199 368
Various accounts payable	1 593 428	963 579
Restructuring costs payable	455 980	867 298
Salaries and fringe benefits payable	2 368 600	2 270 111
	<u>\$8 596 175</u>	<u>\$6 300 356</u>

12. LONG-TERM DEBT

	2009	2008
Borrowings on note from the Gouvernement du Québec's Financing Fund:		
3.828% repayable in annual instalments of \$556 985 until May 10, 2010	\$556 985	\$1 113 971
4.798% repayable in annual instalments of \$503 525 until February 27, 2014	2 517 623	3 021 148
5.795%, repayable in annual instalments of \$254 415 until December 1, 2010	<u>508 830</u>	<u>763 245</u>
Amounts brought forward	<u>\$3 583 438</u>	<u>\$4 898 364</u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009

12. LONG-TERM DEBT (cont'd)

	2009	2008
Borrowings on note from the Gouvernement du Québec's Financing Fund:		
Amounts carried forward	\$3 583 438	\$4 898 364
4.2739%, repayable in annual instalments of \$201 409 until December 1, 2014 and an instalment of \$1 208 459 on December 1, 2015	2 416 918	2 618 328
4.2739%, repayable in annual instalments of \$302 114 until December 1, 2015	2 114 804	2 416 919
4.099%, repayable in annual instalments of \$97 740 until May 10, 2011 and an instalment of \$586 439 on May 10, 2012	781 919	879 658
4.207%, repayable in annual instalments of \$260 703 until October 1, 2012 and an instalment of \$1 303 518 on October 1, 2013	2 346 332	2 607 035
2.726%, repayable in annual instalments of \$532 396 until October 1, 2012 and an instalment of \$3 194 375 on October 1, 2013	5 323 958	
	<u>16 567 369</u>	<u>13 420 304</u>
Instalments due within one year	<u>2 709 289</u>	<u>2 176 893</u>
	<u>\$13 858 080</u>	<u>\$11 243 411</u>

Repayment of principal and interest on long-term borrowings, apart from the borrowing whose balance, at August 31, 2009, was \$508 830, is guaranteed by a mortgage without dispossession underwritten by subsidies granted to Télé-Québec by the Minister of Culture, Communications and the Status of Women to ensure payment of the principal and interest on long-term borrowings as they become payable in keeping with each borrowing's terms and conditions. Payments made as subsidies were transmitted directly to the Financing Fund.

Principal payments on the long-term debt over the next five fiscal years are:

2009	\$2 709 289
2010	2 152 303
2011	2 386 587
2012	1 800 149
2013	5 504 942

13. GOUVERNEMENT DU QUÉBEC ADVANCE

A \$2 750 000 advance was granted Télé-Québec for its investment in the ARTV corporation. Where applicable, the advance will be repaid the date this corporation dissolves or the date Télé-Québec recovers the capital invested or December 31, 2011 at the very latest. Interest costs correspond to net profits earned on the investment of the \$2 750 000 to an annual maximum equal to the prime rate. Interest has cumulated since the advance's disbursement and is payable as of the year when ARTV begins annual distribution of earnings up to the amount distributed.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009

14. DEFERRED REVENUE

	2009	2008
	<u> </u>	<u> </u>
Gouvernement du Québec subsidies		
Subsidies for capital assets for		
long-term debt repayment		
Opening balance	\$17 844 860	\$9 403 323
Deferred revenue for the fiscal year	10 777 570	11 882 357
Transfer to revenues for the year	(3 492 023)	(3 440 820)
Closing balance	<u>25 130 407</u>	<u>17 844 860</u>
Subsidy received in advance	32 313 461	32 313 460
Specific projects	525 758	1 893 300
	<u>57 969 626</u>	<u>52 051 620</u>
Other revenues from outside productions	206 912	179 436
Rent collected in advance	<u>119 240</u>	<u>130 708</u>
	<u>58 295 778</u>	<u>52 361 764</u>
Less: Current portion		
Gouvernement du Québec subsidies	36 941 219	37 395 760
Other revenues from outside productions	206 912	179 436
Rent collected in advance	<u>119 240</u>	<u>130 708</u>
	<u>37 267 371</u>	<u>37 705 904</u>
	<u><u>\$21 028 407</u></u>	<u><u>\$14 655 860</u></u>

15. CASH FLOWS

	2009	2008
	(12 months)	(17 months)
Change in non-cash items related to operations		
Change in accounts receivable	\$(555 992)	\$1 911 658
Change in subsidies receivable from the		
Gouvernement du Québec	317 444	1 089 373
Change in broadcasts produced and being produced	44 181	(1 270)
Change in TV broadcasting and distribution rights and		
participation in outside productions	945 798	(24 204 472)
Change in technical and production supplies	15 574	(50 116)
Change in prepaid expenses	(134 432)	32 661
Change in accounts payable and accrued liabilities	2 295 819	(3 581 050)
Change in TV broadcasting and cablecasting rights and		
participation in outside productions payable	(94 167)	15 401 106
Change in deferred revenue	9 426 037	44 540 838
Change in restructuring costs payable	(344 568)	(319 036)
	<u><u>\$11 915 694</u></u>	<u><u>\$34 819 692</u></u>

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)NOTES TO THE FINANCIAL STATEMENTS (cont'd)
August 31, 2009**15. CASH FLOWS (cont'd)**

The cash and cash equivalents shown in the cash flow statement includes the following amounts recorded in the balance sheet:

	2009	2008
Cash	\$6 690 860	\$3 677 081
Short-term investments (bearing interest at an average rate of 1.70%)	<u>14 998 700</u>	<u>15 754 070</u>
	<u>\$21 689 560</u>	<u>\$19 431 151</u>

The interest paid during the year ended August 31, 2009 totalled \$916 142 (2008: \$2 459 969).

16. COMMITMENTS

Télé-Québec is committed to long-term leases, expiring at various dates up to 2019, for office space and other goods and services. Some of these leases include a renewal option varying from 1 to 15 years.

Lease payments for the year ended August 31, 2009 amount to \$5 241 887 (2008: \$7 723 252).

Minimum future payments for the coming fiscal years are:

2010	\$5 693 985
2011	5 322 079
2012	4 507 766
2013	4 283 150
2014	4 029 357
2015 and thereafter	<u>18 106 623</u>
	<u>\$41 942 960</u>

17. PENSION PLANS

Télé-Québec staff participates in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension Plan of Management Personnel (PPMP). These are inter-employer defined-benefit plans that include guaranteed payments on retirement and death.

At January 1, 2008, Télé-Québec's RREGOP contribution rate increased from 7.06% to 8.19% of the contributory payroll and that of the PPMP from 7.78% to 10.54%.

Télé-Québec's contributions charged to the year ended August 31, 2009 totalled \$1 109 514 (2008: \$1 387 635). Its liability towards these Government plans is restricted to its employer contributions.

18. RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, Télé-Québec is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. Télé-Québec did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not shown separately in the financial statements.

19. COMPARATIVE FIGURES

Certain 2008 figures were reclassified for consistency with the presentation adopted in 2009.

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

MANAGEMENT'S REPORT

The financial statements of Télé-Québec were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. All other financial information contained in the annual report is consistent with that presented in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis.

Télé-Québec recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Board of Directors has overseen the manner in which management performs its financial reporting duties, and has approved the financial statements. It is assisted by the auditing committee, whose members do not belong to management. The committee meets with management and the Auditor General of Québec, examines the financial statements and recommends that the Board of Directors approves them.

The Auditor General of Québec has audited Télé-Québec's financial statements in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion. The Auditor General may, without restriction, meet with the audit committee to discuss any matter related to the audit.

Michèle Fortin
President and Chief Executive Officer

Michèle Parent
General Manager, Administration and Finance

Montréal, October 23, 2009

TÉLÉ-QUÉBEC (SOCIÉTÉ DE TÉLÉDIFFUSION DU QUÉBEC)

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of Télé-Québec as at August 31, 2009 and the statements of operations and cumulated deficit and cash flows for the year then ended. These financial statements are the responsibility Télé-Québec management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of Télé-Québec as at August 31, 2009 and the results of its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, in my opinion, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding year.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, October 23, 2009

TRIBUNAL ADMINISTRATIF DU QUÉBEC
(R.S.Q., c. J-3)

STATEMENT OF OPERATIONS AND CUMULATED SURPLUS
for the year ended March 31, 2009

	2009	2008	2007
REVENUES			
Contribution from the Ministère de la Justice	\$11 090 431	\$10 019 899	\$9 463 862
Other contributions (Note 3)	17 611 529	18 508 602	17 200 615
Rate-setting	187 457	433 096	145 965
Interest on bank deposits and short-term investments	219 412	285 685	410 897
Other	93 986	122 484	192 450
	<u>29 202 815</u>	<u>29 369 766</u>	<u>27 413 789</u>
EXPENSES			
Salaries and fringe benefits	20 038 274	20 995 775	20 215 978
Rent	3 499 147	3 325 583	3 244 432
Transportation and communications	1 529 040	1 431 989	1 419 077
Professional and administrative services	1 772 769	1 821 408	1 630 866
Maintenance and repairs	319 235	310 461	342 531
Materials and supplies	249 495	227 860	277 820
Amortization of capital assets	766 501	854 239	926 732
Interest on long-term debt	157 833	140 277	194 395
	<u>28 332 294</u>	<u>29 107 592</u>	<u>28 251 831</u>
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	870 521	262 174	(838 042)
OPENING CUMULATED SURPLUS	<u>2 404 388</u>	<u>2 142 214</u>	<u>2 980 256</u>
CLOSING CUMULATED SURPLUS	<u><u>\$3 274 909</u></u>	<u><u>\$2 404 388</u></u>	<u><u>\$2 142 214</u></u>

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

BALANCE SHEET
as at March 31, 2009

	2009	2008	2007
ASSETS			
Current assets			
Cash on hand	\$9 796 515	\$8 664 889	\$7 660 483
Accounts receivable and accrued interest	26 823	173 425	571 764
Prepaid expenses	152 211	131 973	126 917
Short-term portion of contributions for transition allowances receivable (Note 8c)	1 312 845	1 909 541	2 213 875
	<u>11 288 394</u>	<u>10 879 828</u>	<u>10 573 039</u>
Contributions for transition allowances receivable (Note 8c)	1 612 061	2 177 471	2 564 218
Capital assets (Note 5)	<u>4 657 438</u>	<u>4 727 041</u>	<u>4 791 974</u>
	<u>\$17 557 893</u>	<u>\$17 784 340</u>	<u>\$17 929 231</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$2 987 702	\$3 369 760	\$2 992 634
Short-term portion of long-term debt (Note 7)	286 591	267 880	247 913
Short-term portion of the provision for transition allowances (Note 8b)	1 556 566	1 376 253	2 471 728
	<u>4 830 859</u>	<u>5 013 893</u>	<u>5 712 275</u>
Long-term debt (Note 7)	1 899 083	2 185 674	2 491 402
Provision for transition allowances (Note 8b)	2 690 878	3 411 251	3 460 618
Provision for sick leave (Note 8d)	1 929 242	2 306 252	2 302 739
Deferred contributions	<u>2 932 922</u>	<u>2 462 882</u>	<u>1 819 983</u>
	<u>14 282 984</u>	<u>15 379 952</u>	<u>15 787 017</u>
CUMULATED SURPLUS	<u>3 274 909</u>	<u>2 404 388</u>	<u>2 142 214</u>
	<u>\$17 557 893</u>	<u>\$17 784 340</u>	<u>\$17 929 231</u>

COMMITMENTS (Note 11)

The notes are an integral part of these financial statements.

On behalf of the Tribunal,
Hélène de Kovachich, President, Director General and Head Administrative Judge
Gisèle Pagé, Assistant Director General and Interim Director of Administration and the Fonds du Tribunal

TRIBUNAL ADMINISTRATIF DU QUÉBEC

STATEMENT OF CASH FLOWS
for the year ended March 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES			
Excess of revenues over expenses (expenses over revenues)	\$870 521	\$262 174	\$(838 042)
Items not affecting cash:			
Amortization of capital assets	766 501	854 239	926 732
Amortization of deferred contributions	<u>(399 960)</u>	<u>(423 201)</u>	<u>(353 377)</u>
	1 237 062	693 212	(264 687)
Change in non-cash items related to operations (Note 9)	<u>(125 562)</u>	<u>376 161</u>	<u>(514 293)</u>
Cash flows from (for) operating activities	<u>1 111 500</u>	<u>1 069 373</u>	<u>(778 980)</u>
INVESTMENT ACTIVITIES			
Acquisition of capital assets and cash flows used for investment activities	<u>(581 994)</u>	<u>(845 306)</u>	<u>(1 128 494)</u>
FINANCING ACTIVITIES			
Long-term debt repayment	(267 880)	(285 761)	(231 735)
Increase in deferred contributions	<u>870 000</u>	<u>1 066 100</u>	<u>912 300</u>
Cash flows from financing activities	<u>602 120</u>	<u>780 339</u>	<u>680 565</u>
INCREASE (DECREASE) IN CASH ON HAND	1 131 626	1 004 406	(1 226 909)
OPENING CASH ON HAND	<u>8 664 889</u>	<u>7 660 483</u>	<u>8 887 392</u>
CLOSING CASH ON HAND	<u>\$9 796 515</u>	<u>\$8 664 889</u>	<u>\$7 660 483</u>
Additional information			
Interest paid	\$159 557	\$141 676	\$195 703
Capital assets unpaid at end of year	\$241 377	\$126 473	\$182 473

The notes are an integral part of these financial statements.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2009

1. CONSTITUTION AND PURPOSE

The Tribunal administratif du Québec Tribunal) is a Government agency established under the *Act respecting administrative justice* (R.S.Q., C. J-3) mandated, in those cases provided for in the Act, to rule on recourses against an administrative authority or a decentralized authority. Under the *Income Tax Act* (Canada) and the *Taxation Act* (Québec), the Tribunal does not pay income tax.

2. ACCOUNTING POLICIES

To prepare its financial statements, the AEE gives priority to the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, and any other source of generally accepted accounting principles (GAAP) used is consistent with it.

Preparation of the financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect asset and liability reporting, contingent asset and liability presentation on the date of the financial statements, and revenue and expense reporting over the period covered by the financial statements. The main elements for which management has used estimates and assumptions are the service life of capital assets, the provision for sick leave and the transition allowance established on an actuarial basis. Real results may differ from these estimates.

Capital assets

Capital assets are recorded at cost and amortized over their previous service life using the straight-line method and the following rates:

Office furniture and equipment	20.00%
Office automation and computer equipment	33.33%
Leasehold improvements	
– major developments	6.67%
– other	10.00%
System development costs	20.00%
Software	33.33%

The systems being developed will be amortized when the projects are completed and operational.

Capital asset depreciation

When market conditions show that a capital asset no longer contributes to the Tribunal's capacity to supply goods and services, or that the value of its future economic benefits is lower than its net book value, its cost is reduced to reflect this decline in value. The decline in value is posted as expenses to the statement of operations. At March 31, 2009, 2008 and 2007, no decline in value was recognized.

Contributions

Contributions for Tribunal's current operations are posted to revenues in the fiscal year in which they are payable.

Contributions for fixed assets are deferred and amortized at the same rate as the related capital assets. Annual amortization is presented in the fiscal year's results.

Pension plans

The accounting procedure used for defined-contribution plans is applied to inter-enterprise government defined-benefit plans, given that the Tribunal lacks sufficient information to apply the accounting procedure for defined-benefit plans.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009

2. ACCOUNTING POLICIES (cont'd)
Provision for sick leave

The long-term obligations related to sick leave accumulated by employees are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits, that is, based on employees' accumulation and use of sick days.

Provision for transition allowance

The long-term obligations related to transition allowances accumulated by administrative judges are assessed on an actuarial basis using a simplified estimation method based on the most probable assumptions determined by the Tribunal and the Government. These assumptions undergo actuarial revaluation annually. The resulting liabilities and corresponding charges are reported according to the means of acquisition of these fringe benefits by the administrative judges, that is, based on their accumulation of one month's wages at the time of departure per uninterrupted year of service, to a maximum of twelve months.

3. CHANGES IN ACCOUNTING POLICIES

Since April 1, 2008, the Tribunal has used the Canadian Institute of Chartered Accountants (CICA) Public Sector Accounting Handbook, to prepare its financial statements. Previously, it used the CICA Handbook (private sector). The effects of the first application of these new standards are posted retroactively and the comparative financial statements reworked. This change does not affect the Tribunal's results or cumulated surplus.

The accounting policies affected by this change in accounting framework are described below.

Capital assets

Systems and software development costs are now presented under "Capital assets" rather than "Intangible assets".

Capital asset depreciation

The decrease in capital assets' value is based on their capacity to supply goods and services, or on the value of future economic benefits rather than evaluation of the unrealized future cash flows that the capital asset will generate.

4. OTHER CONTRIBUTIONS

	2009	2008	2007
Société de l'assurance automobile du Québec	\$11 100 641	\$10 752 632	\$7 746 107
Ministère de l'Emploi et de la Solidarité sociale	5 208 257	6 426 973	7 904 556
Régie des rentes du Québec	1 290 563	1 306 806	1 536 972
Commission de la santé et de la sécurité du travail	12 068	22 191	12 980
	<u>\$17 611 529</u>	<u>\$18 508 602</u>	<u>\$17 200 615</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
5. CAPITAL ASSETS

	2009			2008	2007
	Cost	Accumulated depreciation	Net value	Net value	Net value
Office furniture and equipment	\$764 706	\$657 199	\$107 507	\$94 590	\$87 019
Office automation and computer equipment	2 229 355	1 936 874	292 481	198 401	241 731
Leasehold improvements					
Major developments	4 035 992	2 330 906	1 705 086	1 974 152	2 243 218
Other	660 800	311 167	349 633	345 838	378 272
System development costs	4 383 451	2 349 551	2 033 900	2 056 449	1 716 565
Software	1 245 425	1 076 594	168 831	57 611	125 169
	<u>\$13 319 729</u>	<u>\$8 662 291</u>	<u>\$4 657 438</u>	<u>\$4 727 041</u>	<u>\$4 791 974</u>

Systems development costs include systems being developed totalling \$1 716 673 at March 31, 2009 (\$1 524 363 in 2008 and \$952 470 in 2007).

6. BANK BORROWING

The Tribunal has authorized rotating credit of \$2 000 000 with the Gouvernement du Québec. This instrument is renewable in March 2010. At March 31, 2009, 2008 and 2007, it was unused.

7. LONG-TERM DEBT

	2009	2008	2007
Borrowings from the Société immobilière du Québec, fixed rates of 6.31% and 7.05%, repayable in monthly instalments of \$35 620, (capital and interest) with the final instalment in April 2016	\$2 185 674	\$2 453 554	\$2 739 315
Minus: short-term portion	<u>286 591</u>	<u>267 880</u>	<u>247 913</u>
	<u>\$1 899 083</u>	<u>\$2 185 674</u>	<u>\$2 491 402</u>

Payments of principal over the next five fiscal years break down as:

2010	\$286 591
2011	\$306 613
2012	\$328 037
2013	\$350 964
2014	\$363 594

8. FUTURE FRINGE BENEFITS
a) Pension plans

Administrative judges and Tribunal staff participate in the Government and Public Employees Retirement Plan (RREGOP), Civil Service Superannuation Plan (CSSP) or Pension of Plan of Management Personnel (PPMP), which are defined-benefit plans that include guaranteed benefits on retirement and death.

The Tribunal's contributions charged to the year-end statement totalled \$1 266 073 (2008: \$1 079 573; 2007: \$990 908). Its liability towards these Government plans is restricted to its employer contributions.

TRIBUNAL ADMINISTRATIF DU QUÉBEC

NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**8. FUTURE FRINGE BENEFITS (cont'd)****a) Pension plans (cont'd)**

Further, some of the Tribunal's administrative judges do not participate in a government pension plan. Instead, they receive a sum equivalent to the employer's contribution for the duration of their contract. These amounts are posted to the fiscal year's operations and totalled \$0 (2008: \$5 774; 2007: \$7 548).

b) Provision for transition allowances

During the fiscal year, the Tribunal changed the method it uses to evaluate transition allowance obligations, which, since fiscal 2009 are evaluated using an actuarial method reflecting the distribution of accrued benefits. This change in accounting estimates decreased the obligation's value \$208 557 at March 31, 2009. The change's effect has been posted prospectively to the fiscal year's results.

The transition allowances are payable to full-time administrative judges apart from those on unpaid leave in the total public service, working at December 31, 2005, who do not seek renewal of their mandate. According to the Regulation on remuneration and Tribunal employees' other working conditions, this allocation corresponds to one month's wages at the time of departure per year of continuous service up to a maximum of twelve months.

	2009	2008	2009
Opening balance	\$4 787 504	\$5 932 346	\$5 652 645
Annual expenses	43 279	330 996	347 718
Benefits paid	(583 339)	(1 475 838)	(68 017)
Closing balance	4 247 444	4 787 504	5 932 346
Minus:			
Short-term portion	1 556 566	1 376 253	2 471 728
	<u>\$2 690 878</u>	<u>\$3 411 251</u>	<u>\$3 460 618</u>

Subsequent evaluations and estimates

The transition allowances were actualized on the basis of the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	2.00% per year
Discount rate (rate for Québec's obligations due within ten years)	3.31% on average
Average remaining service period of active administrative judges	6.30 years

c) Contributions for transition allowances receivable

Under a Gouvernement du Québec Order-in-Council of 2005, Tribunal contributors must pay a total of \$5 255 700. The balance receivable for transition allowance payable was \$2 924 906 at March 31, 2009.

	2009	2008	2007
Opening balance	\$4 087 012	\$4 778 093	\$4 839 580
Contributions received during fiscal year	(1 162 106)	(691 081)	(61 487)
Closing balance	2 924 906	4 087 012	4 778 093
Minus:			
Short-term portion	1 312 845	1 909 541	2 213 875
	<u>\$1 612 061</u>	<u>\$2 177 471</u>	<u>\$2 564 218</u>

TRIBUNAL ADMINISTRATIF DU QUÉBEC
NOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009
8. FUTURE FRINGE BENEFITS (cont'd)
d) Provision for sick leave

During the fiscal year, the Tribunal changed the method used to assess its obligations related to accumulated sick leave. Since fiscal 2009, these obligations are assessed using an actuarial method based on accrued benefit breakdown. This change in accounting estimation decreased the value of the obligation by \$133 266 at March 31, 2009. The effect of this change was posted prospectively to results.

	2009	2008	2007
Opening balance	\$2 306 252	\$2 302 739	\$2 785 849
Annual expenses	261 863	452 208	423 715
Benefits paid	<u>(638 873)</u>	<u>(448 695)</u>	<u>(906 825)</u>
Closing balance	<u>\$1 929 242</u>	<u>\$2 306 252</u>	<u>\$2 302 739</u>

The Tribunal has sick leave accumulation program, which leads to long-term obligations whose costs are borne by the Tribunal in their entirety.

The sick leave accumulation program allows employees to accumulate unused days of sick leave to which they are entitled annually. This time can be paid at a rate of 50% should the employee stop working, leave for retirement or die, up to an amount representing the equivalent of 66 days. Employees may also choose to use the time accumulated in days off with full pay in the context of a pre-retirement departure. Currently, this program is not capitalized to ensure these payments.

Sick leave accumulation program obligations increase as employees render services to the Tribunal. The value of this obligation is established using a method that distributes program costs over the duration of employees' service period.

Subsequent evaluations and estimates

The sick leave accumulation program has been actualized based on the following long-term economic estimates and assumptions at March 31, 2009.

Indexation rate	2.00 to 3.25% per year
Discount rate (rate for Québec's obligations due within ten years)	4.27% on average
Average remaining service period of active employees	14.6 years

9. CASH FLOWS

	2009	2008	2007
Change in non-cash items related to operations:			
Accounts receivable and accrued interest	\$146 602	\$398 339	\$(187 065)
Prepaid expenses	(20 238)	(5 056)	12 076
Provision for transition allowances receivable	1 162 106	691 081	61 487
Accounts payable and accrued liabilities	(496 962)	433 126	(197 382)
Provision for transition allowances	(540 060)	(1 144 842)	279 701
Provision for sick leave	<u>(377 010)</u>	<u>3 513</u>	<u>(483 110)</u>
	<u><u>\$(125 562)</u></u>	<u><u>\$376 161</u></u>	<u><u>\$(514 293)</u></u>

TRIBUNAL ADMINISTRATIF DU QUÉBECNOTES TO THE FINANCIAL STATEMENTS (cont'd)
March 31, 2009**10. RELATED PARTY TRANSACTIONS**

In addition to the related party transactions disclosed in its financial statements and recorded at exchange value, the Tribunal is a related party to all Government departments, special funds, agencies and enterprises controlled directly or indirectly by the Gouvernement du Québec or subject to joint control or significant influence by it. The Tribunal did not do business with these related parties other than during the normal course of operations and under normal business conditions. These transactions are not all shown separately in the financial statements.

11. COMMITMENTS

The Tribunal is a party to equipment rental leases. Under these leases, whose expiry dates range from 2010 to 2014, the Tribunal committed to paying \$145 706. The minimum annual rent for the next five fiscal years is:

	<u>2009</u>
2010	\$50 163
2011	45 691
2012	24 512
2013	18 062
2014	<u>7 278</u>
	<u>\$145 706</u>

12. COMPARATIVE FIGURES

Certain 2008 and 2007 figures were reclassified for consistency with the presentation adopted in 2009.

TRIBUNAL ADMINISTRATIF DU QUÉBEC**MANAGEMENT'S REPORT**

The financial statements of the Tribunal administratif du Québec (Tribunal) were prepared by management, which is responsible for their preparation and presentation, the significant judgements and estimates included therein, and the choice of accounting policies that comply with Canadian generally accepted accounting principles. The financial information contained in the rest of the annual management report concurs with the information provided in the financial statements.

To fulfil its mandate, management maintains a system of internal accounting controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly approved and accurately recorded on a timely basis. The Tribunal recognizes that it is responsible for conducting its affairs in accordance with the statutes and regulations governing it.

The Auditor General of Québec has audited the Tribunal's financial statements, in accordance with Canadian generally accepted auditing standards. His report states the nature and scope of his audit and his opinion.

Hélène de Kovachich,
President, Director General and Head Administrative Judge

Gisèle Pagé,
Assistant Director General and Interim Director of Administration and the Fonds du Tribunal

Québec, June 2, 2009

TRIBUNAL ADMINISTRATIF DU QUÉBEC

AUDITOR'S REPORT

To the National Assembly

I have audited the balance sheet of the Tribunal administratif du Québec as at March 31, 2009 and the statements of operations, cumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of Tribunal management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards, which require planning and performing the audit to obtain reasonable assurance that the financial statements are free of material misstatement. The audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, the significant estimates made by management and the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Tribunal's financial position as at March 31, 2009 and the results of its operations and cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., c. V-5.01), I report that, given the retroactive application of the changes resulting from adoption of the public sector accounting standards, as disclosed in Note 3, these principles were applied on a basis consistent with that of the preceding years.

Renaud Lachance, CA auditor
Auditor General of Québec

Québec, June 2, 2009